

UNITED GROWER HOLDINGS



**United Grower Holdings Ltd.**

**Submission to  
Wheat Marketing Act Amendment Bill 2002  
under review by the  
Senate Rural and Regional Affairs and Transport  
Legislation Committee**

**4 March 2003**

28<sup>th</sup> February 2003

The Chairman  
Senate Rural and Regional Affairs and Transport Committee  
Parliament House  
Canberra ACT 2600

Dear Sir

Please find enclosed a submission on behalf of United Growers Holdings Limited (UGH), a grower organisation based in Southern Australia that has 11,800 grain grower shareholders.

In this submission you will find it is our view that this legislation is being pushed through Parliament without adequate grain grower consultation, and that the bill fails to address the inherent dysfunctionality that exists in Australian wheat industry today. Under this current structure Australian wheat growers are being disadvantaged by a lack of accountability, transparency and contestability. Returns to wheat farmers and to the overall economy are being reduced because of these structural issues.

The Bill put forward by the Minister is a levy on wheat growers and it is being justified by a number of assumptions that fail to stand up to scrutiny. This levy will reduce grower returns, contrary to statements made in the explanatory memorandum.

We seek a stronger, more independent Wheat Export Authority (WEA) that is better able to address issues associated with management of the wheat export single desk. This will not be achieved by retaining the WEA with the same funding, same board and management, same powers and with the same reliance on AWB Limited for much of its information. While we are in favour of retaining the wheat single desk we remain strongly dissatisfied with the manner in which it is presently being managed and with the manner in which the WEA provides oversight of the management of this function. The Bill as presented does not resolve these issues and in our view should be returned to the Minister to address the more fundamental issues associated with the operation of the single desk.

Yours sincerely



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## **1. Background - United Grower Holdings**

United Grower Holdings (UGH) Ltd was created in 2000 as part of the demutualisation of South Australian Co-operative Bulk Handling (SACBH) Ltd.

From October 2000, AusBulk Ltd (the operating company) issued approximately 85 million shares to members of SACBH. The same number of shares was also issued directly to UGH to provide the holding company with an effective controlling interest in AusBulk. At present, UGH owns 50.34% of the shares on issue in AusBulk.

Like AusBulk, UGH also issued shares to all SACBH members from October 2000. However there were some restrictions placed on the trading of the shares to ensure only growers who were active in the industry bought the shares. “Active” growers are defined by two criteria in the UGH constitution: they are engaged in grain production for a significant commercial purpose and they deliver not less than 33.3 tonnes of grain or other commodities per year or, 100 tonnes over three years, to AusBulk receival facilities.

UGH currently has 11,808 shareholders predominantly from South Australia but including others from Victoria and other Australian states. Following several share buy-back programs targeted at very small shareholdings and now non-active grain growers, the Company has approximately 82.7 million shares on issue.

The net asset backing price of UGH shares from the financial year ending 30 September 2002 was \$2.37. A total of 10.5 cents per share or, a 6.7% dividend yield was paid to UGH shareholders for the same period. Accordingly, while UGH provides grain growers with a mechanism for ensuring that AusBulk continues to have the interests of grain growers influencing its’ activities, it also gives growers a valuable return on their investment.

More than just being a holding company for AusBulk Ltd, the grain grower elected directors of UGH have seen a strong need for UGH to undertake some other important roles in the Australian grain industry. In particular, UGH is taking a leadership role in helping our shareholders and growers generally, to explore and address grain industry issues. The other objectives of UGH focus on: encouraging growers to become or remain UGH shareholders; providing a commercial return to our shareholders; and, proactively influencing the rationalisation of the grain industry to maximise the benefits to Australian grain growers.

As a company that unites over 11,800 grain growers, it is entirely appropriate that UGH submits a paper to the Senate Rural and Regional Affairs and Transport Legislation Committee to assist the review of the Wheat Marketing Act Amendment Bill 2002.

## **2. Senate Committee Review**

We commend the Senate for the referral of this important piece of legislation to a Senate Committee. The proposed action to rush this amendment through parliament was not in the best interests of growers and continues to show a lack of consultation with the full grain industry. The narrow consultation currently being undertaken by AFFA does not allow access to a wide range of views, access to these stakeholders would reveal that many are dissatisfied with the current arrangements.

While we are pleased that the Senate Committee on Rural and Regional Affairs and Transport Legislation Committee has called for submissions and will hold two days of public hearings we are concerned about the haste involved in this process. We are concerned that the inference that could be drawn from this haste is a lack of apparent desire to explore important issues that are associated with the matters dealt with in this Bill. We have enclosed a brief submission and will be very interested to meet with the Committee to further explore these issues. We would however point out that the matter cannot be fully and appropriately explored within the timeframe and within the process that the Senate Committee is pursuing.

It is our view that the current arrangements governing the Australian wheat industry are structurally flawed and that this is to the detriment of Australian grain growers. The band-aid solution covered in this bill does not address the fundamental dysfunctionality of the current industry structure. It is our view that it is appropriate for a wider and more detailed review to be conducted by Parliament as soon as possible to address the current structure of the Australian wheat industry.

### 3. Wheat Marketing Act (WMA) Explanatory Memorandum

The 2002 Explanatory Memorandum distributed by the Minister of Agriculture, Fisheries and Forestry, the Hon Warren Truss MP, and a copy of the second reading speech of the Minister have been made available to us. We have reviewed these documents and would comment that we disagree with a number of the points made by the Minister in one or both of these documents. It would appear that the Minister has been badly advised on the activities in the wheat market today and on the impacts of the WMA on Australian farmers.

Specifically in regard to the documents we would advise as follows:

#### *2002 Explanatory Memorandum*

- Page 3 under Financial Impact Statement states: “there will be no net financial impact from this bill”. While this may be true of the impact on the Government it is not true in regard to impact on farmer incomes. On-farm income will be directly impacted by the amount of the levy proposed. AWB pool returns will be lower by that same amount and this will cause the cash wheat price to be lower by the same amount. The cash wheat market in Australia, in areas of export surplus, trades at a price that is purely and simply sufficient to attract wheat away from the pool. Two unintended outcomes from this levy in its current form are that (a) domestic wheat prices will be lower and domestic grain consumers will buy their wheat at a lower price, and (b) because the wheat market is a key determinant of the price for substitute feedgrains it is likely that these other grains will also trade at a lower price.
- Page 3 under Financial Impact Statement states: “a charge of around 12-15 cents...would be sufficient to meet the WEA’s current budgeted expenditure of around \$2m annually.”

This statement takes no account of a widely held view that the WEA is currently failing to appropriately perform the function it was were commissioned to undertake. To quote Senator O’Brien during the period in which this matter was referred to your committee, “it is clear the WEA’s monitoring of the single desk has been manifestly inadequate”. It is our view that the WEA is under-funded and under-resourced to perform the task it is assigned. The board and management of the WEA have no significant grain marketing expertise and they are virtually totally reliant on AWB Limited for advice.

It is our recommendation that WEA be provided with appropriate resources to perform the watchdog function that is required for the industry. The breadth of its powers should be extended to cover AWB Limited as well as AWB International (AWBI). This is necessary because AWBI is purely a shell, with no staff and inadequate independence from its parent. We recommend that the WEA should be advised to seek a greater degree of specific independent market advice and that AWB Limited should not be able to influence whom the WEA uses for that advice. We recommend that the process for selection of WEA board members be reviewed to ensure that a pool wider than the current troika of Grains Council of

Australia (GCA)/AFFA/AWB Limited is involved in the selection of these representatives.

As such we see a strong case for increasing the funding available to the WEA to allow it to be more independent and more effective. If this meant that funding of 25 cents per tonne was required, and provided that the WEA was correctly structured, then we would support this.

- The Introduction under Regulation Impact Statement on page 4 is in our view a selective rewrite of history. As such we do not agree with the specifics of its content. When introducing the Wheat Marketing Amendment Legislation Bill 1998 the Minister at the time, the Hon John Anderson MP, Minister for Primary Industries and Energy, put forward a 1998 Explanatory Memorandum and a 1998 Supplementary Explanatory Memorandum. Key components of these documents are summarised in Appendix 1.

Our reading of the two memorandums, and of the Wheat Marketing Act, causes us to believe that the wheat single desk or export monopoly actually resides in WEA. AWBI has been granted an exemption to the WEA monopoly, and as such special powers to export without prior consent. Because of a veto provided to AWBI over bulk exports by other participants, AWBI is in effect able to extract a monopoly position on the export of bulk wheat from Australia. Initially this exemption was intended to only apply until 2004 but the 1998 Supplementary Memorandum extended this exemption indefinitely. The 2004 review is intended to assess how AWBI is managing these special powers.

This view is supported by Mr Anderson's statements in sections 18, 27, 32, 33, 43 and 74 of the 1998 Explanatory Memorandum and Sections 2 and 5 of the 1998 Supplementary Explanatory Memorandum. The need to create the structure in this way is reinforced in Sections 24, 25, 30, 32, and 75. See Appendix 1.

In the 2002 Explanatory Memorandum it is stated that:

*“On 1 July 1999, the statutory marketing and financing arrangements for wheat through the former statutory Australian Wheat Board ceased and these activities were taken up by a grower controlled, public company, AWB Ltd and its subsidiaries. AWB (International) Ltd (AWBI), the wholly owned subsidiary responsible for maximising net returns to growers through export sales and pooling, was granted, through the Wheat Marketing Act 1989 (the WMA), the single desk export right for wheat which had been held by the former Australian Wheat Board.*

*The export regulatory functions of the former Australian Wheat Board (under which other exporters could seek a permit from the Board to export wheat outside of the single desk) were taken over by the Wheat Export Authority (WEA).”*

We do not consider these statements are factually correct, and seek clarification from the Senate Committee on the status of the single desk. If the single desk has been passed to a wholly owned subsidiary of a commercial entity, as the 2002 Explanatory Memorandum suggests, then this would present a vastly different scenario to that understood by many within the grain community in Australia. This change in itself would be a trigger for a significant review of the manner in

which the commercial ‘shareholder return driven’ parent AWB Limited is providing services to that export monopoly.

The entity that the 2002 Explanatory Memorandum puts forward as the holder of the export monopoly is AWBI, is a subsidiary company of AWB Limited. AWBI has no staff and its board is dominated by a majority of directors from the commercial parent. This includes the appointment of the Chairman and Chief Executive who hold those same functions in the commercially driven parent company that provides non-contestable services. The so-called independent directors of AWBI have not been seen or heard during any of the discussions that have occurred in the industry in the last twelve months. It has been strongly contended by various sources that AWB Limited is making margins that are above commercial returns in providing services to the export pool, unfortunately neither the independent directors of AWBI or the WEA have undertaken any visible action to address this issue.

Alternatively, if the Senate Committee concurs with our view that the export single desk resides in the WEA, we seek clarification on why incorrect information would be presented in a matter that would lead us to question the accuracy and independence of advice being provided to the Minister.

- On page 4 under the Introduction to the Regulation Impact Statement it is noted on several occasions that the WEA has the responsibility to develop effective performance indicators and to monitor performance. It is unfortunate that these benchmarks were not developed in consultation with the wider grain industry, and also that they have not been made available to the public for comment or discussion. We recommend that these benchmarks be made public and that all interested parties are able to contribute in a constructive manner on the effectiveness of these indicators.

The troika of GCA/AFFA/AWB Limited that developed these benchmarks is increasingly unreflective of views within the wider grains industry. Appendix 3 summarises a revised picture of stakeholders in the Australian grain industry, one that is more reflective of the changing dynamics of the last 10 years. In this diagram it can be seen that a wide group of key wheat industry stakeholders are currently excluded from adequate input into the decision making process. These new wheat groups in many cases have strongly differing views to those being expressed by GCA. This lack of access is unhealthy for the industry, particularly in an environment where the GCA and state-based farmer organisations are heavily dependent on AWB Limited for funding support.

- On Page 5 it is stated that an initial \$6 million of seed funding was provided to the WEA, and that the WEA estimates that based on current activities a projected expenditure level of \$1.8-2m annually will be required. We note that the original seed money was provided by growers, the funds coming from reserves of the former Australian Wheat Board, which was money withheld from growers. We also note that under the proposed forward structure all of the ongoing funding is to be provided by growers in the form of a levy suggested at 12-15 cents a tonne.

We would comment that at this time the reporting line is from the WEA to the Minister and the Government, not to the group that provides the funds. Growers



have no access to any information of significance on the manner in which export arrangements are being handled. The heavily censored document currently distributed to growers contributes no value in allowing growers or the wider industry to make informed decisions. If it is intended that growers be taxed via another levy then a much higher degree of accountability back to growers is appropriate.

In regard to the two detailed reports provided to the Minister already we call for these reports to be released publicly to all growers so that they are in a position to monitor the performance of AWBI. Growers are likely to be reluctant to accept additional taxation without increased accountability.

- On page 5 details of the so-called problem are explained. We concur that it is important to provide equitable long term funding for the WEA to carry out its functions. However this is on the proviso that the WEA improves its performance, is more accountable to growers and more independent of AWB Limited.

In the 2002 Explanatory Memorandum it is stated that wheat growers are the main beneficiaries of the WEA's functions. If this is true, wheat growers need to be able to see this and make their own judgment. We also believe that a case exists that the wider community benefits from an efficient wheat industry, and that the regulatory body WEA should be the beneficiary of Government as well as industry funding. The case for additional non grower funding is made stronger if the primary reporting requirement remains to the Minister, rather than to growers.

- On pages 6-8 options to address the problem of ongoing funding are discussed. It is suggested that options exist to determine what proportion of sharing of any impost between growers and marketers/exporters may be appropriate. These comments reflect an apparent lack of understanding of the functioning of the grain market. Other comments such as "exporters may consider their international competitiveness is affected" reinforces that a lack of understanding pervades the document. All of the options discussed will directly impact on grower returns, as already indicated. The price that is achieved on the export market will not vary as a result of this levy.

As such the mechanism is largely unimportant. Of the options suggested we favour a levy on growers to fund at least a proportion of the operating costs of the WEA. We see no reason why this levy should not be on all producers as all Australian wheat growers receive equivalent benefit of the single desk structure. We consider that the suggested concomitant reduction in the current levy rates for research and development should be further pursued.

We do not agree that a fee associated with an application for export permits is appropriate. We note that the high rate of rejection of permits by WEA has meant there is already a major disincentive for exporters to develop niche or specialty markets. This disincentive has meant that many likely exporters are no longer even applying for permits, knowing that since the WEA was established there have been no successful exports of bulk wheat by parties other than AWBI and that many container and bagged markets are largely excluded from applicants.

Imposing a fee on export applicants who are already skeptical about the process will make this function even less effective than it is at present.

- On page 9 under consultation we note that the narrow consultation process already discussed is reinforced by the authors of the 2002 Explanatory Memorandum. This narrow consultation with the old guard elite is described as “consultation... with the main stakeholders”; this reflects a lack of understanding of the changing dynamic of the wheat and broader grains industry. An example of the lack of consultation within the industry today can be instanced in the recent Kronos Report entitled “ *A Review of Structural Issues in the Australia Grain Market*”, a report co-commissioned by UGH. Despite our offers, on at least six occasions over a four month period, the GCA has not been prepared to even receive a presentation on the findings of this major study. The relationship between GCA and AWB Limited appears to be too close, to the extent that GCA will not even consider issues that are impacting on grower returns.
- On page 10 implementation and review are discussed. Of particular importance is the 2004 review to be undertaken by the WEA. In our discussions with the WEA it has been very specific that its brief relates solely to a review of AWBI and that it has neither capacity or authority to review the activities of the parent, AWB Limited. We consider this situation untenable as AWB Limited is currently the provider of 77 types of non-contestable services to AWBI and that these services provide the majority of the income of the publicly listed AWB Limited.

At present a significant amount of debate within the wheat industry relates to a requirement to move the export bulk wheat exemption available to AWBI into a new company that is a separate legal entity from AWB Limited. This new corporate entity would be owned by wheatgrowers and would have an independent Board of Directors. These directors would not be a majority of AWB Limited directors as occurs at the present time, but would be a separate independent group of directors. A small number of specific staff would be appointed to the new entity, so that the export pool company has staff able to represent the interests of wheatgrowers instead of shareholders, at present AWBI has no staff. The new company would be able to tender many of the pool services and it is anticipated that AWB Limited would still be able to provide many, but not all, of these services. It is anticipated that contestability on input services, particularly prior to FOB point, would substantially reduce the level of costs deducted from growers.

## **4. Other Key Wheat Industry Issues**

The Australian wheat industry is in transition at the present time. AWB Limited and its subsidiary AWBI have a dual responsibility to maximise returns to growers and to maximise returns to shareholders. It is our contention, strongly supported by the findings of the Kronos Report, that balancing these dual responsibilities has become an unmanageable conflict of interest for AWB Limited.

AWB Limited has over a period of several years progressively become less accountable to growers and to other industry stakeholders. AWB Limited will not disaggregate the costs that it charges to growers, and on behalf of AWBI it has progressively introduced restrictive business rules that stifle competition and reduce services available to Australian wheat growers. AWB Limited is charging fees for non-contestable services that are providing excessive margins without adequate accountability. At the same time AWB Limited is making investments that, on the available information, fail to generate appropriate commercial returns and in order to rectify this is changing grain flow patterns and logistics to channel wheat to these under performing assets.

As an organisation, UGH is dissatisfied with the structure of the current Australian wheat marketing arrangements. We remain in favour of retaining single desk marketing arrangements but believe that in order to protect the single desk for the long term a change to the structure of the industry is needed now. We would recommend that a full review of the industry be conducted in 2004 and that a priority outcome from this review would be to separate the export monopoly manager away from the service company provider AWB Limited.

Another issue that we believe should be addressed, as part of a wider review is where the export monopoly starts and finishes. AWB Limited claims that an export monopoly is something that starts on farm and that they have the right to control the provision of all services between the farm gate and the export customer, the AWB Limited euphemism for this is “line of sight” from grower to consumer. We dispute this attempt to monopolise all services by a company that seeks to profit from providing these services. We contend that an export monopoly is something that applies to exporting and as such see no reason why the export monopoly should not start at the FOB point, when the wheat is loaded on board a vessel. Recent studies have suggested that \$100-150 million per annum in cost savings could be achieved by introducing some contestability on these services between farm gate and FOB.

At the present time the wheat industry is a closed shop and appears incapable of addressing these issues without intervention from government. We think it is now appropriate for leadership to be shown and for action to be taken to commission a more detailed inquiry into practices within the Australian wheat industry.

# Appendix 1- 1998 Explanatory & Supplementary Explanatory Memorandum

## *1998 Explanatory Memorandum*

18. Following lengthy discussion, Government and industry have agreed that from 1 July 1999 responsibility for all commercial aspects of wheat marketing will be taken over by a new grower owned and controlled Corporations Law company structure. Consequently, from 1 July 1999, the only ongoing Government involvement (and therefore regulatory impact) in wheat marketing will be in relation to the export monopoly on wheat which will be managed, from that time, by a small independent statutory body.
24. Accountability is important because the monopoly is a gift of Government. It will be provided by Parliament through legislation on behalf of the community as a whole. Consequently the community should be satisfied, through Parliament, that the monopoly is used as intended.
25. Separation of regulatory and commercial functions has been agreed by the Government in the National Competition Policy and related Commonwealth-State Agreements and legislation. It is not appropriate that the new company hold regulatory as well as commercial functions.
27. The options considered for providing the export monopoly included:
  - . Legislate the monopoly for all wheat exports to the grower company;
  - . Legislate the monopoly for bulk wheat exports to the grower company, with a separate mechanism to manage exports by other than the grower company; and
  - . Legislate the monopoly to an independent statutory body to manage, with a legislative requirement that wheat export rights reside with the new grower company for a prescribed period.
30. The third option provides for certainty, accountability and a separation of regulatory and commercial functions. In regards to accountability, one of the specific functions of the independent body would be to monitor the use of the export monopoly.
31. Consequently, of the options considered, only the third option met all three objectives.

### **Recommended Option**

32. The most appropriate option is to legislate the export monopoly on wheat to an independent statutory body to be known as the Wheat Export Authority (WEA). For an initial period of five years the legislation will provide that the new grower company pool subsidiary has an automatic right to export wheat. Requests to export wheat from other than the grower company (as currently happens) would be managed by the WEA to separate regulatory and commercial functions.
33. The WEA would be formed by retaining the 'shell' of the existing statutory AWB as a suitably renamed and reshaped independent body. Its functions would be limited to: managing and approving requests to export wheat from organisations other than the pool subsidiary; monitoring the use of the monopoly; and accounting to Government and industry as required on performance of its functions.

43. Assuming that the NCP Review in 1999-2000 recommends continuation of the export monopoly, it is envisaged that before the end of the prescribed five year period in 2004 an export monopoly performance review would be held. Specifically, the review would assess the performance of the pooling subsidiary of the grower company (Company B) in its use of its wheat export rights and advise Government on the future operation of the export monopoly, including whether that company should continue to have special export rights. It is envisaged that such a review would be linked with and possibly combined with an NCP review process. It would be up to the Government to decide who would receive any special export rights beyond 2004 and for Parliament to amend the legislation as necessary.
74. The new subsection 5(1) provides that the WEA's functions will be to control the export of wheat from Australia, to monitor the export performance of Company B including to examine and report on the benefits to growers of the performance of Company B in exporting wheat. This is a consequence of that company having an automatic right to export wheat under the proposed new section 57(1A) of the WMA (Item 9 of the Schedule). The WEA will be responsible for the issue or non-issue of export consents to persons other than Company B seeking to export wheat. Its monitoring role will not involve oversighting the financial and marketing operations of Company B which are the responsibility of Company B's directors.
75. The new subsection 5(2) will give the WEA powers to do all things necessary or convenient to be done to undertake its functions.

### ***1998 Supplementary Explanatory Memorandum***

2. The Bill provides for the establishment of the Wheat Export Authority (WEA) which will be the successor body to the Australian Wheat Board (AWB) from 1 July 1999. Its functions will be to control exports of wheat, to monitor the grower company Pooling subsidiary's (Company B) performance in relation to the export of wheat and to examine and report on the benefits accruing to growers from the performance of Company B. The Bill also provides for the monopoly to be given to Company B for five years from 1 July 1999.
5. Assuming that the NCP Review in 1999-2000 recommends continuation of the export monopoly, a review will be held by the WEA before the end of 2004 on the export monopoly performance of company B. Specifically, the review would assess the performance of the pooling subsidiary of the grower company in its use of its wheat export rights and report to the Minister on the future operation of the export monopoly, including whether that company should continue to have special export rights. It would be up to the Government to decide from time to time who would receive any special export rights and for Parliament to amend the legislation as necessary.

## Appendix 2- UGH/NETCO Media Release

November 29, 2002

### WEA struggles for transparency and accountability

The Wheat Export Authority (WEA), which released its second report on the performance of AWB International (AWBI) last week, was hampered in its capacity to deliver transparency and accountability in the management of export monopoly marketing arrangements according to Kronos Corporate Pty Ltd managing director Alan Winney.

Mr Winney said one of the key recommendations of the Kronos Report, *A review of the structure of the Australian grain market*, was for the WEA to be granted greater power and resources to provide adequate oversight of wheat export monopoly marketing arrangements. Released on November 13 in Canberra, the Kronos Report was commissioned by grain grower groups NETCO Cooperative Ltd and United Grower Holdings (UGH) Ltd to examine ways to improve farm gate returns for growers.

“In regard to the WEA, the Kronos Report found it was not able to be effective in its current form,” Mr Winney said. “At present it does not have sufficient power, funding or current expertise to adequately assess the performance of the AWB group and the impact of its activities on growers’ farm gate returns. WEA reviews the performance of AWBI, the custodian of wheat export monopoly powers. AWB Ltd, which provides almost all services to AWBI on a non-contestable basis, is not accountable to the WEA.

“For the WEA to be effective it needs to be more independent of the AWB group. One of the key recommendations of the Kronos Report was that the structure of the WEA be reviewed and enhanced. The WEA report, in which WEA concerns are couched in veiled terms heavily laden with AWB explanations of WEA points, can hardly be considered the report of a vigorous, independent watchdog proactively protecting the interests of Australian wheat farmers.”

Mr Winney said the WEA report noted several key points that remained unresolved, including:

- WEA sought greater clarification and more timely, consistent and accurate information from AWBI – late provision of information and a lack of comparability between seasons hampers WEA analysis;
- WEA recommended strengthening of AWBI’s key performance indicators, and notes that in its current structure “there is limited incentive to focus AWB Ltd on providing services which deliver maximum net returns to growers”;
- WEA recommended strengthening penalty provisions related to the AWB Ltd services agreement, and that there was no added penalty for repeat offences in the same season – raising this point in the report suggested the occurrence of repeat offences;
- WEA suggested incentives to reduce supply chain costs could be further improved, and noted AWB Ltd’s bonus payments were based on a gross pool figure, not on a net figure;
- further analysis was needed about export wheat pool information which was exclusively available to AWB Ltd, as it operated in the deregulated domestic market and in other grains – AWB Ltd’s advantage was dramatically highlighted by the grain price drop experienced in the past week;
- more information was needed on container markets, as well as greater recognition of the niche characteristics of some applications for export permits;
- WEA noted it was unable to conclusively report that AWBI achieved price discrimination – that is, price premiums because of its monopoly status;
- AWBI had not yet provided information about the competitiveness of its chartering activities, a non-contestable service highlighted in the Kronos Report;
- WEA noted the survey used to monitor AWB performance was conducted by AWB Ltd and that WEA had conflicting evidence that disagreed with the survey – despite this WEA provided no explanation why a more impartial source of information was not sought, or why the survey is not more appropriately conducted by an independent body such as WEA itself;

- while WEA noted that AWBI achieved higher prices compared to overseas benchmarks it provided no detail to justify this claim, or how much the higher price related to inherent quality advantages or seasonal timing differences associated with Australian wheat.

“Growers need more transparent information to make decisions on their single desk,” Mr Winney said. “The fact that these issues remain unresolved is an indication the WEA does not currently have the powers or resources to address these issues in a timely manner.

“The WEA itself admits its function is fundamentally associated with reporting benefits to growers from AWBI operations, and is powerless to review the services exclusively provided to the export pool or any other responsibilities of AWB Ltd. Yet the Kronos Report clearly showed the management of these responsibilities had a direct impact on growers’ farm gate returns, which would be significantly improved if these responsibilities were managed differently in accordance with the Kronos Report recommendations.

“For example, while the WEA was unable to be conclusive about changes in supply chain costs because of late information provided by AWBI in a different format, the Kronos Report found national wheat pool participants were incurring at least \$9.33 in additional costs. They were not incurring these costs prior to 1999 and the privatisation of AWB. Additional costs were incurred in finance, underwriting, logistics services and pool management fees. This is an annual cost of more than \$100 million per annum, which could be significantly reduced if AWBI allowed contestability in services to the pool. Instead it receives these services almost exclusively from AWB Ltd at a rate which the Kronos Report found could be significantly reduced in a contestable environment.”

Mr Winney said the WEA report had also not addressed other current issues, including that the AWB *Out Performance Incentive Fee* was likely to be automatically triggered, irrespective of AWBI performance, in a drought year such as the current year, and that overall supply chain costs would be lower per tonne in a year with a lower percentage of exports and less port costs.

“In three years WEA does not appear to have reviewed the restrictive business rules imposed by AWBI to determine whether they add value to the wheat export pools or whether they simply put AWB Ltd, the service provider, in a stronger position,” he said. “Export monopoly holders are obliged to maximise farm gate returns for growers, yet the Kronos Report indicates the business rules they impose prevent them from doing so.”

## Ends

**For more information or to arrange an interview please contact Richard Henderson on (08) 8272 8699 or 0417 819 438.**

### Background information:

The full report, *A review of structural issues in the Australian grain market*, by Kronos Corporate Pty Ltd, September 2002, is available in PDF format at the following websites:

[www.kronoscorp.com.au](http://www.kronoscorp.com.au)    [www.netcoop.com.au](http://www.netcoop.com.au)    [www.unitedgrowerholdings.com.au](http://www.unitedgrowerholdings.com.au)

**About the author:** Kronos Corporate Pty Ltd is a consulting and executive search firm specialising in agribusiness and regional development.

**About the report:** *A review of structural issues in the Australian grain market* was commissioned by:

**NETCO Cooperative Ltd** – the peak cooperative body representing ten leading grain cooperatives throughout Australia. NETCO members comprise 5000 grain growers in Queensland, Western Australia, New South Wales and Victoria who in total produce eight million tonnes of grain, or 20% of Australian production.

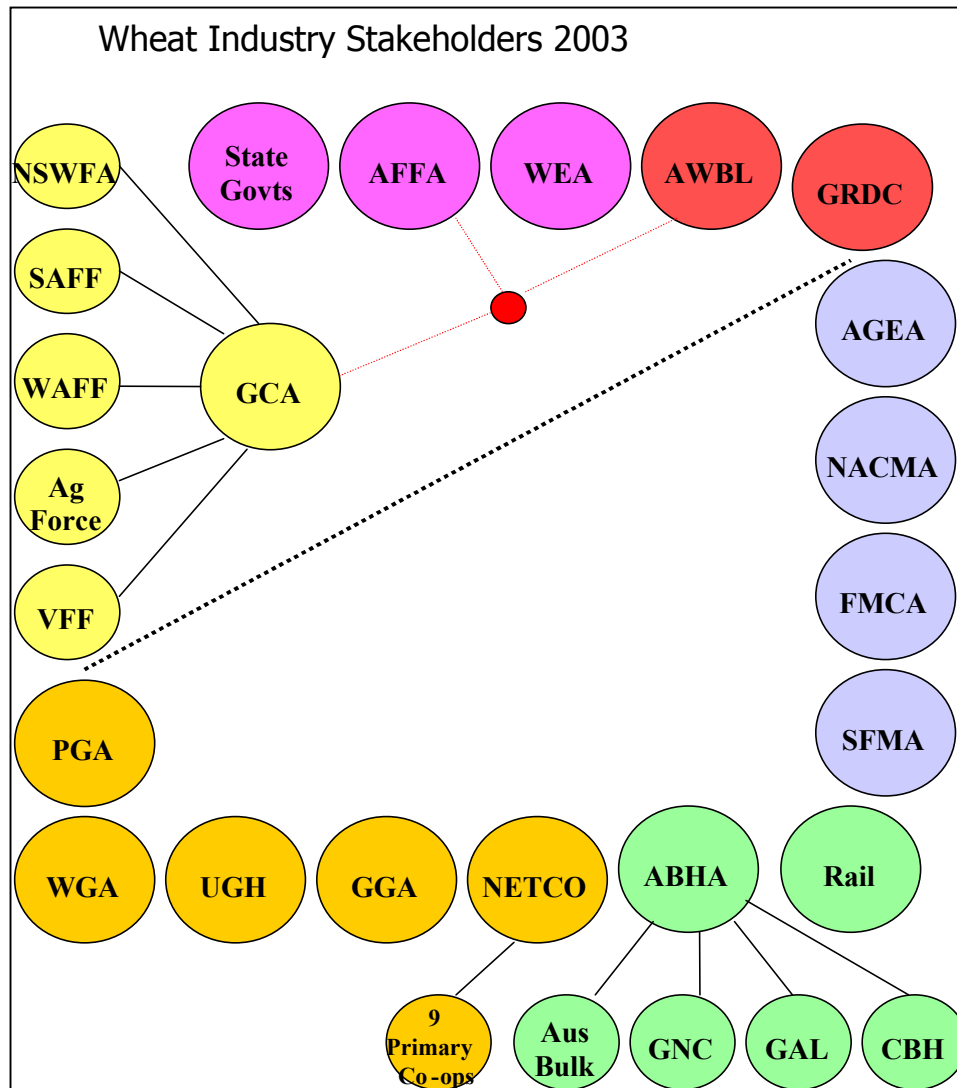
**United Grower Holdings (UGH) Ltd** – a grower-owned and controlled company representing 12,000 grower-shareholders mainly in South Australia but with increasing representation in Victoria and New South Wales. UGH maintains investments in the grain industry on behalf of its grower-shareholders, including assets in storage, handling and grain processing.

With support from:

**National Agricultural Commodities Marketing Association (NACMA) Ltd**, the post farm gate industry umbrella body for the grain trade in Australia. Its members include all the state merchant associations, the Association of Bulk Handling Companies, the Australian Grain Exporters Association and the Flour Millers Council of Australia. NACMA supported the project being undertaken in order to enhance debate on the issues.



## Appendix 3 – Wheat Industry Stakeholders



Under the current consultative structure operating in the Australian wheat industry only those older traditional organisations operating above the black dotted line are involved in determining the decision making framework. The new organisations, in total representing tens of thousands of wheatgrowers, and most of the service provision and consumer industries, are excluded from the decision making framework.

This division between the old traditional organisations and the new entities remains unresolved. The new entities have been created, and are getting stronger, because the old agripotitical groups no longer adequately align with the viewpoint of a significant proportion of the industry. In its consultation on industry structure AFFA is locked into the old industry paradigm and is not consulting widely enough with the wheat industry.