

Chapter 2

Reform of the single desk

2.1 The primary focus of this inquiry is the exposure draft of the Wheat Export Marketing Bill 2008 and the related bill. However, during the inquiry the committee received evidence in relation to a number of broader issues surrounding the deregulation of the wheat industry. While a number of these concerns are outside the terms of reference of the committee's inquiry into the bills, the committee recognises that these issues are of significance to growers. Accordingly, the committee has chosen to highlight and publish these concerns. The committee considers that by airing these issues, broader policy considerations can be addressed by government, growers, industry and the Parliament in concurrence with the implementation of the legislative changes contained in the bills.

Preserving the status quo

2.2 Currently, the Australian domestic and export wheat markets operate very differently. The Australian domestic wheat market was completely deregulated in 1989, and has operated free of specific government regulation since that time. Consequently, growers are able to directly sell their wheat to domestic traders and consumers, or to deliver their wheat into pools. The Australian export wheat market however is directed through a single exporter of bulk wheat – Australian Wheat Board International Limited (AWBI). The statutory regulator, the Export Wheat Commission and its predecessor, the Wheat Export Authority, monitor the operation of AWBI, and manage the export of non-bulk wheat (bagged and container wheat).¹

2.3 Due to the lack of domestic demand in Western Australia (WA) and South Australia (SA), the majority of their wheat crop is exported, and growers in those states have remained largely dependant on the export market, which has been controlled by the single desk. Eastern state growers however, have the option to sell to various buyers in the large domestic market, or to the single desk for export.²

2.4 The committee heard evidence that the single desk delivers significant benefits to wheat growers by maximising returns and by providing security of payment.³ The committee heard on a number of occasions, assertions that the majority of growers were strongly in favour of retention of the single desk. However, the

1 Australian Bureau of Statistics, Year Book Australia (1301.0), 15 March 2007, p. 8 of 11, <http://www.abs.gov.au/ausstats/abs@.nsf/Previousproducts/1301.0Feature%20Article212006?opendocument&tabname=Summary&prodno=1301.0&issue=2006&num=&view=> (accessed 28 April 2008).

2 Institute of Public Affairs, *The Politics of Wheat*, Briefing Paper, March 2008, p. 2.

3 See, for example, Submission 6, Mrs Marion Billing; Submission 27, Mr Darryl Kitto; Submission 31, Mr Barwon Staggs and Submission 32, Mr Alan Malcolm.

committee notes that it was not always clear which model of the single desk witnesses were referring to as the single desk has undergone progressive change in recent years.

2.5 The committee notes that a number of growers referred to a model of the single desk which operated before the Australian Wheat Board Ltd (AWB) was corporatised.⁴ Some also referred to how things were under the *Wheat Industry Stabilisation Act 1948*. Needless to say, these models of the single desk no longer exist as operational models.

2.6 The committee also received evidence regarding the efforts of the Wheat Export Marketing Alliance (WEMA) to establish a new single desk through the formation of a grower-owned and controlled co-operative. The committee notes that the WEMA proposal has not proceeded and considers that it is not the task of this committee to review the reasons for this.⁵

2.7 The committee also notes that preserving the status quo is problematic. The Department of Agriculture, Fisheries and Forestry (DAFF) told the committee

If nothing has changed between now and the end of June, then what happens on 1 July is that the minister's current power to grant or refuse applications for export permits will lapse and the Export Wheat Commission will become the sole determinant of whether or not an export permit should be issued. The test it will have to apply is the one in the existing act, which is whether or not the application for a bulk permit will complement the objectives of AWBI in running the national pools or whether it develops niche markets.⁶

2.8 DAFF went on to confirm that AWB is required to operate national pools under the current legislation for as long as it is exempt from acquiring an export approval from the Export Wheat Commission.⁷

2.9 AWB advised the committee that the default position of not passing the legislation would present an extremely difficult operating environment for all players in the industry. Mr Robert Hadler, General Manager, Corporate, AWB, stated that 'it is not feasible for AWB to go back to the old arrangements'.

The reality is that Australia's wheat export marketing arrangements have fundamentally changed over the last 18 months and there is no longer a single desk in place. We have a hybrid set of arrangements, with a national

4 *Committee Hansard*, 26 March 2008, p. 102.

5 See, for example, Mr Angus McLaren, *Committee Hansard*, 22 April 2008, pp 6-7; Mr Chris Kellock, *Committee Hansard*, 22 April 2008, p. 8; Mr Hugh Hart, *Committee Hansard*, 22 April 2008 p. 16 and Mr Graham Blight, *Committee Hansard*, 22 April 2008, pp 32-39.

6 Mr Russell Phillips, Department of Agriculture, Fisheries and Forestry, *Committee Hansard*, 27 March 2008, p. 14.

7 Mr Russell Phillips, Department of Agriculture, Fisheries and Forestry, *Committee Hansard*, 27 March 2008, pp 14-15.

pool that accommodates about 60 percent of wheat exports; there are bulk export permits that are given to a range of other exporters; and wheat exporting in bags and containers is deregulated.⁸

2.10 AWB further noted that while it is 'potentially possible' to run a pool under the current arrangements,

...the current arrangements do not provide volume certainty for AWB in running a national pool. That makes it incredibly difficult to maximise returns to growers that participate in the pool...we would not be able to run the sorts of pools that have been run in the past...⁹

2.11 While growers may not have been clear on which specific model of the single desk they might wish to retain, the committee did gain a clear impression of the key features of a single desk environment that are important to many growers. These features are discussed below.

Collective marketing of Australian wheat

2.12 The collective marketing of Australian grain on the overseas market by a single marketing body is seen by many growers as the best strategy for Australia, both for maximising returns to growers and providing stability in a highly subsidised international market.¹⁰ Mr Alan Malcolm told the committee:

One grower on their own is very small, but working together growers have a fair degree of strength.¹¹

2.13 Growers expressed concern that the introduction of multiple sellers, potentially competing against each other to win a share of the international market, would result in a loss of certainty and a decrease in returns to growers. Growers argued:

... we will have two Australian competitors, two Australian exporters of our grain, competing in the same market. ... The company that will come back out winning that market ... will be the company that has come in with the lowest price. ... It will be at the cost of us, the Australian growers.¹²

... under a single desk system we are able to put allotments of grain together, so we have one collective body of grain right across from the eastern seaboard to the western seaboard.¹³

8 Mr Robert Hadler, *Committee Hansard*, 27 March 2008, p. 1.

9 Mr Robert Hadler, *Committee Hansard*, 22 April 2008, p. 47.

10 See, for example, Mr Barry Bishop, *Committee Hansard*, 26 March 2008, p. 88; Mr Gary Bibby, *Committee Hansard*, 26 March 2008, p. 89 and Mr M Gollasch, *Committee Hansard*, 27 March 2008, p. 35.

11 Mr Alan Malcolm, *Committee Hansard*, 26 March 2008, p. 99.

12 Mr Lance Drum, *Committee Hansard*, 26 March 2008, p. 56.

13 Mr Lance Drum, *Committee Hansard*, 26 March 2008, p. 57.

2.14 In its submission, the Institute of Public Affairs (IPA) told the committee that these concerns were misplaced, and that in a more competitive market, the buyers would compete to drive the price up. The IPA noted that low prices are a function of more sellers than buyers in a market. The IPA also expressed confidence that multiple buyers would need to outbid each other to get sellers to deal with them.¹⁴

Regional pools

2.15 A number of growers expressed concern that the development of regional pools would force growers into a difficult position. Growers perceived a risk that regional pools may close at any time, and that growers who harvest later, or who have not committed to the pool at the time of delivery, may be unable to sell their wheat and may be forced into costly storage options.

2.16 The IPA suggested that such concerns are unfounded, and noted that the current AWB national pool is a series of pools that open and close in response to world grain prices. The IPA submitted that further deregulation of the market will lead to innovation in this area.

At least one pool for next harvest is already operating that allows a grower to insure for production risk. The grower can commit to the pool with certainty knowing if the crop fails, the maximum washout cost is \$20 a tonne.¹⁵

Financial security and access to finance

2.17 A number of growers expressed concern that under the proposed changes growers would face greater risks without the security of payment and finance offered under the single desk. A number of growers and grower organisations told the committee that harvest finance payments (whereby growers receive up to 80 percent of the estimated pool return as an upfront payment); the Golden Rewards scheme (in which incremental payments are made for premium choice varieties of wheat); and the receiver of last resort, have provided growers with a degree of certainty and stability.

2.18 Many submitters also raised concerns about their ongoing financial viability if there was no national pool offering up-front payments. However, at least one exporter indicated to the committee that they expected to provide a percentage payment up-front, and a number of exporters have also indicated that they intend to run national pools.¹⁶

14 Submission 22, Institute of Public Affairs, pp 5-6.

15 Submission 22, Institute of Public Affairs, p. 5.

16 See for example: Mr Robert Hadler, AWB, Committee Hansard, 22 April 2008, p. 64; Mr Michael Chaseling, Emerald Group, *Committee Hansard*, 22 April 2008, pp. 99 and 103; Submission 41, Emerald Group, p. 8,

2.19 Growers also indicated to the committee the importance of the national pool in establishing a floor price for wheat, not only in the export market but also in the deregulated domestic market.

Anybody who follows the daily pricing of domestic wheat can see that in a normal production year, where the domestic market is likely to be oversupplied, on any one day only bids which are in excess of the estimated silo return from the national pool are achieving any sales. Nobody would sell to a private buyer for less than what they expected to get from the pool.¹⁷

Receiver of last resort

2.20 The committee noted the significance to growers of the perceived role of the 'receiver of last resort' in providing a market for excess stock in high production years, or in situations where production did not meet a required standard. Many growers referred to this facility as the 'buyer of last resort', and told the committee that this facility provided much needed security, particularly to smaller growers, who might not have the capacity to store excess grain.

2.21 However, the committee also heard that, in practical terms, there is no 'buyer of last resort':

While the Wheat Marketing Act stipulates that the holder of the export licence must receive all grain presented to it, the exporter has the right to accept only grain that meets its receival standards (which are set by AWB Ltd itself). Those receival standards apply across broad quality bands, for which an average price is paid to growers.¹⁸

2.22 AWB confirmed that there is no 'buyer of last resort'.

Under the current legislation and the arrangements managed by AWB, if wheat does not meet delivery standards we do not have to accept it. The wheat is then usually discounted into the domestic market or other markets as feed wheat at a lower price or it cannot be sold, because it does not meet anyone's quality standards.¹⁹

Access to finance

2.23 From the evidence received, the committee notes that many growers are similarly concerned at the impact the proposed changes will have on their ability to gain access to finance, particularly in relation to the coming season. Many growers are clearly anxious about how banks and other financial institutions will respond to this

17 Mr Mark Gollasch, *Committee Hansard*, 27 March 2008, p. 37.

18 ACIL Tasman, *Marketing Australian Wheat: Competition and choice in the Australian export wheat market – increasing grower's net returns*, November 2006, p. 8. (Document tabled at 27 March 2008 hearing by Australian Grain Exporters Association).

19 Mr Robert Hadler, AWB, *Committee Hansard*, 27 March 2008, p. 3.

major change in the market. A number of growers expressed concern that further deregulation of the market would lead to greater uncertainty in relation to securing finance in the future. Growers commented that the single desk and the estimated pool return gave confidence to both growers and the banks.²⁰

2.24 The IPA's submission indicated that such concerns lack foundation, and argued that, in the past some banks may have relied on estimated national pool prices as the basis on which they budgeted projected returns. Whilst this has led to claims that banks lend against the pool return, this is not actually correct:

Banks may use pool prices in their estimation of returns but the decision whether to advance borrowings is based on the overall financial viability of the farm. After all, even the best-projected prices are insufficient security if there is substantial production risk due to drought.²¹

2.25 In its submission to the Government's Wheat Export Marketing Consultation Committee, the Australian Bankers' Association (ABA) stated that:

Access to finance should not be affected by the proposed changes to wheat marketing arrangements. Counter party risk is an issue that will need to be addressed by growers and their financiers and the responsibility of WEA to only accredit Company's [sic] with appropriate financial capacity and risk management practices will assist greatly in this regard.²²

2.26 The committee notes that in a Media release dated 2 April 2008, the ABA also provided the following assurance to growers:

The banking sector wants to reassure grain growers that access to finance will continue, despite uncertainty about how future Australian wheat crops will be marketed and exported.

While the wheat prices are expected to come back from their current levels, the outlook is they will remain relatively high despite the Australian dollar's strength. Rural property values have held up despite the drought as result of the positive outlook for the demand for agricultural commodities. However, the drought has adversely affected this sector and some farmers may be carrying considerable debt. This is why it is important to keep open the lines of communication. I urge any farmer who is concerned about their financial position to discuss the situation with their bank and other financial advisors.²³

2.27 The committee received evidence to suggest that a range of new pools and services would emerge within the new market environment that would fill the gap left

20 See, for example, Mr Lance Drum, *Committee Hansard*, 26 March 2008, p. 67.

21 Submission 22, Institute of Public Affairs, p. 6.

22 Correspondence provided by the Australian Bankers' Association Inc, copy of submission to Wheat Export Marketing Consultation Committee, dated 1 April 2008, p. 1.

23 Australian Bankers' Association, Media Release, *Banks and wheat crop funding – access to finance continues*, dated 2 April 2008.

by the single desk. The committee notes the evidence of Mr Robert Hadler that AWB has announced that it will offer wheat pools for the forthcoming 2008-09 harvest. Mr Hadler told the committee that:

Key elements of AWB pooling, which Australian wheat growers are familiar with, will remain. That includes the trust structure that protects pool participants, harvest finance loans and payments, regular pool distributions and incentives for grain quality. The final details of any AWB pooling offer will depend on the legislative arrangements that will ultimately be in place on 1 July.²⁴

2.28 In addition, Mr Hadler drew the committee's attention to other new marketing arrangements, also expected to be in place for the 2008-09 harvest, that indicate that the grains industry is getting ready for new wheat export marketing arrangements. He said that:

... two state grain organisations have indicated that they are expecting that new wheat-marketing initiatives will be in place. The Western Australian Farmers Federation and the Emerald grain trading company have announced the formation of a marketing alliance. The suggestion is that this commercial arrangement will assist the WA Farmers Federation and its members to take greater control of their wheat marketing, as the Australian market deregulates. The Victorian Farmers Federation are also looking at developing a new wheat export cooperative. They announced that at their recent conference.²⁵

Industry good functions²⁶

2.29 A number of growers expressed concern about who will undertake industry good functions such as market development and promotion, and plant breeding.²⁷ Such activities have been undertaken by the single desk in the past and therefore the costs and risks associated with them have been spread across the industry as a whole.²⁸ Growers emphasised that Australia's competitive advantage in the world market lies in its ability to deliver quality wheat. They also emphasised the importance of effective management of quality in a more competitive market.²⁹

24 Mr Robert Hadler, AWB Limited, *Committee Hansard*, 22 April 2008, p. 46.

25 Mr Robert Hadler, AWB Limited, *Committee Hansard*, 22 April 2008, p. 46.

26 For the purposes of this discussion the committee has defined 'industry good functions' to mean those 11 services identified and discussed in the Wheat Industry Expert Group Discussion Paper *The Provision and Transition of Industry Development Functions for the Australian Wheat Industry*, March 2008

27 Mr Gary Bishop, *Committee Hansard*, 26 March 2008, p. 88.

28 Mr Andrew Broad, *Committee Hansard*, 26 March 2008, p. 91.

29 Mr Andrew Broad, *Committee Hansard*, 26 March 2008, pp 90-91.

2.30 The committee also received evidence that not all industry good functions can be left to the market and noted calls for a national wheat body, funded by growers, to carry out industry good functions that the market may fail to deliver.³⁰

2.31 Mr John Crosby, Chair of the Wheat Industry Expert Group (WIEG), provided evidence to the committee about the work of the Group. WEIG was set up on 6 February 2008 to advise on the delivery of wheat 'industry development' (or 'industry good') functions which have historically been carried out by the single desk operator, AWB (International) Ltd (AWBI). In its March 2008 discussion paper, WIEG noted that the definition of what constitutes an industry development function has been a matter for some debate across the Australian wheat industry. Some sections of the industry believe services provided by AWBI such as branding and wheat promotion are legitimate industry development functions. Others, however, argue that these services are purely commercial activities 'carried out to maintain strong customer relationships and support the penetration of its product in a market'.³¹

2.32 WIEG has produced a list of eleven services that industry representatives have suggested constitute industry development or 'industry good' functions:

1. Industry strategic planning
2. Research and development
3. Wheat variety classification
4. Wheat receival standards
5. Information provision
6. Crop sharing activities
7. Technical market support
8. Wheat promotion
9. Branding
10. Trade advocacy
11. Regulatory advocacy³²

2.33 WIEG has been charged with identifying which of the above functions are essential and determining how these functions are currently being delivered. In addition, WIEG has been asked to detail options for the delivery and funding of these functions under the new wheat marketing arrangements.

30 Submission 17, Callum Downs Commodity News, p. 7.

31 Wheat Industry Expert Group, *The Provision and Transition of Industry Development Functions for the Australian Wheat Industry, Discussion Paper*, March 2008, p. 8.

32 Wheat Industry Expert Group, *The Provision and Transition of Industry Development Functions for the Australian Wheat Industry, Discussion Paper*, March 2008, p. 8.

2.34 The committee notes that WIEG has been requested to report to the Minister for Agriculture Fisheries and Forestry by 24 April 2008. The committee's terms of reference do not include duplicating the work being undertaken by WIEG, however, the committee considers that it is important to highlight the following issues that were raised during this inquiry.

Access to timely information about grain stocks

2.35 The committee observed that a consistent theme throughout the inquiry was the importance of the availability of reliable and timely information and effective price signals is of central importance to the success of the proposed changes, more so than the accreditation of traders.³³

Grain marketers and, indeed, all players in the supply chain need to be able access data on wheat stocks in storage through the supply chain so as to manage both supply and risk. Formal collection and availability of suitable information will be a necessary requirement.³⁴

2.36 Witnesses to the inquiry emphasised the importance of equitable access to market information as a means of ensuring a high level of transparency in a more competitive market. It was argued that, in moving to a more competitive market, the lack of such information could result in grain handling companies having a significant advantage over other exporters and as a consequence, market failure would be a very real risk.³⁵ The availability of easily accessible and reliable information is also of vital importance to growers. It enables them to effectively undertake pre-harvest planning, make decisions about how and when to market their wheat and to manage risk.³⁶

2.37 The Grains Policy Institute (GPI) supported the removal of the current 'commercial-in-confidence' classification on the release of wheat export data. The GPI stated that this would allow the preparation of an accurate and informative grains 'balance sheet'.³⁷

2.38 The importance of access to information is further illustrated by the evidence the committee received from individual growers in relation to their personal experience with hedging.³⁸ A number of growers told the committee that, partly in response to uncertainty surrounding the future of the single desk, they had chosen to hedge a portion of their crops with varying degrees of success. The committee notes

33 Submission 28, Grain Growers Association, p. 8.

34 Submission 20, Flour Millers' Council of Australia, p. 2.

35 Submission 17, Callum Downs Commodity News, p. 6.

36 Submission 28, Grain Growers Association, p. 8.

37 Submission 21, Grains Policy Institute, p. 8.

38 See, for example, Messrs Curry and MacPherson (June Growers Group); Messrs Anthony and Lance Drum (Temora Growers Group) and Messrs Walton, Hamilton and Packer (Condamine Growers Group), *Committee Hansard*, 26 March 2008.

that for growers to make effective use of hedging and related risk management products they need access to good financial advice and a high level of market information.

2.39 In its submission to the inquiry, the Australian Securities Exchange Limited (ASX) also emphasised the importance of the provision of timely and accurate data on wheat forecasts and stocks as the industry moves toward deregulation. The ASX described its role in:

- Facilitating price discovery and the transfer of risk;
- Minimising the prospect for counter-party and settlement default; and
- Reducing transaction costs.

2.40 The ASX said that continued growth of the domestic futures market is, 'in part, dependent on the existence of a robust, independent, accurate and timely data reporting regime for crop estimates and available stocks on hand.'³⁹

2.41 The NSW Farmers' Association also suggested that, in addition to access to reliable information, many farmers may require training in marketing and risk management. They expressed concern that many farmers lack the necessary marketing/hedging skills that will be required to operate their businesses effectively in the new environment. Growers have traditionally relied on the expertise of AWBI. The NSW Farmers' Association recommended that government funded training and education should be incorporated in the process of implementing the bill.⁴⁰

2.42 AWB also suggested that the grains industry could play an important role in supporting and protecting growers from abuse of market power. Mr Robert Hadler told the committee that:

I think NACMA, as an industry group, is looking at standard industry contracts, and that could be a good way, through a voluntary code of practice, of providing industry support for greater transparency on estimated silo returns and how growers are treated at silo.⁴¹

2.43 Views varied as to the frequency with which market information should be made available. While there is general support for WIEG's proposal that aggregated data be made available on a monthly basis, some submitters suggested that certain data sets should be made available on a more frequent basis.

2.44 AWB and Consolidated Grain Industries advocated daily reports for receipt data. Consolidated Grain Industries referred the committee to the USDA requirement that exporters notify major international sales within 48 hours of the contracts being

39 Submission 40, ASX Limited.

40 Submission 35, NSW Farmers' Association, p. 3.

41 Mr Robert Hadler, AWB, *Committee Hansard*, 27 March 2008, p. 5.

written and that this information is immediately made publicly available.⁴² Callum Downs Commodity News also supported the production of weekly reports on export sales and export shipments.⁴³ The NSW Farmers' Association advocated weekly reporting of the amount of grain on hand and its quality.⁴⁴ WIEG and GPI supported the monthly reporting of production and stocks. The committee notes that WIEG also recommended weekly reports on export shipments and export sales.⁴⁵

2.45 The Grain Growers Association (GGA) noted the recommendation of WIEG that information could be collated and distributed by the Australian Bureau of Agricultural and Resource Economics (ABARE) on a monthly basis. GGA also noted the potential for market participants to seek to limit the information available to the marketplace where this information is seen as commercially valuable:

To ensure that the market remains competitive, a detailed range of information on prices, supply chain costs, wheat supply and demand, will need to be readily available to all participants. The provision of this information will ensure that the market remains transparent, small to medium sized operators are competitive, and there are lower barriers to entry for new entrants.⁴⁶

Differences in scale and timing of production

2.46 Throughout this inquiry the committee has been mindful of significant differences within the Australian wheat industry and the impact that these differences have in defining the challenges and opportunities individual growers perceive within the proposed changes.

2.47 The committee notes evidence from the IPA that over 80 percent of the national wheat crop is produced by large wheat growers and the greater percentage of these are in Western Australia (WA). The IPA told the committee that WA is the largest wheat producing state despite having only 18 percent of wheat growers. The average wheat-growing farm in WA is now 1½ times larger than in NSW and 2 ½ times larger than in Victoria.

2.48 The committee also notes that differences in scale of production may result in differences in the degree of flexibility growers have in marketing their crop. The committee heard that under the proposed arrangements, larger growers, particularly those in Western Australia and South Australia, are likely to have the cash flow capacity to exercise greater choice as to when to market their wheat and to whom.

42 Submission 12, Consolidated Grain Industries, p. 2.

43 Submission 17, Callum Downs Commodity News, p. 6.

44 Submission 35, NSW Farmers' Association, p. 4.

45 Wheat Industry Expert Group, *The Provision and Transition of Industry Development Functions for the Australian Wheat Industry, Discussion Paper*, March 2008 and Submission 21, Grains Policy Institute, p. 8.

46 Submission 28, Grain Growers Association, pp. 10-11.

Australian wheat is in demand not just up until the pool closes but every day of the year, so farmers will be able to find a bid in the market that represents the world demand for wheat long after harvest. There will be a price there for them in December and January at harvest, certainly, but also through March, April, May, June and right out to September. We have seen a small amount of that already in the container market. Importantly, that means that farmers do not have to force their cash pricing decisions into marketing alternatives that are pre-harvest or pre-closure of the pool.⁴⁷

2.49 The IPA told the committee that larger farmers are also less reliant on pools because they have greater capacity to manage pricing risk through financial products such as forward contracts, futures and swaps.⁴⁸

2.50 The committee recognises, however, that not all growers have the capacity to manage risk in this way. The committee heard evidence from smaller growers in the eastern states which indicated that under the proposed changes they would be forced to manage their own carryover stocks. These growers expressed concern that regional pools may close at any time and that growers who harvest later, or who have not committed to the pool at the time of delivery may be unable to sell their wheat. It was argued that because they will be unable to afford to warehouse their wheat, these growers would be forced to accept whatever price is offered at the completion of the harvest.⁴⁹

2.51 Representatives from DAFF and WIEG, however, expressed confidence that smaller growers would not find themselves in an unduly vulnerable position under the proposed changes. Dr Terence Sheales, of DAFF, told the committee:

Apart from what I said earlier about small growers in every state making a lot of use of other methods of marketing their grain, the bottom line of all this is that it will be a competitive market. If someone tries to take advantage of what they think are captive suppliers in that market, others will step into the breach and out compete them.⁵⁰

2.52 Mr John Crosby, Chair, WIEG, told the committee he believed that smaller growers would find that their most economic option would be to continue to supply grain through the current storage system.

Given that the bigger growers will vacate space out of those storages, I cannot imagine that the grain-handling people with the grain storage are going to find it difficult to deal with those people who still want to use them. We will have empty silo space, and the reason we will have that is

47 Mr Alick Osborne, Australian Grain Exporters Association, *Committee Hansard*, 27 March 2008, p. 45.

48 Submission No. 22, Institute of Public Affairs, p. 3.

49 Mr Hugh Hart, *Committee Hansard*, 26 March 2008, p. 74 and Mr M Gollasch, *Committee Hansard*, 27 March 2008, p. 36.

50 Dr Terence Sheales, *Committee Hansard*, 27 March 2008, p. 27.

because those farmers who make the decision to put in on-farm storage actually increase the entire pool of storage.

... in my view, the smaller farmer will find no difference in their current arrangements with the current grain-handling authorities, because they will be required customers, even though they are small.⁵¹

2.53 Some small growers do perceive opportunities under the proposed legislation, particularly an ability to exercise greater flexibility in managing the marketing of their grain. As one grower commented:

I believe that under the old legislation we were the ultimate price takers. We had no option to do anything else – to be entrepreneurial, to be a free marketer or to find a way to value-add our product. ... I believe that under this legislation ... small growers like me have at last the opportunity to employ some of our entrepreneurial skills to try to come above the average.⁵²

2.54 The committee was also told about the impact of climatic differences and variations in the commencement of harvest in different growing regions. The committee heard that the flow of production from the north to the south has a significant influence on the range of marketing options available to growers. In the current deregulated domestic market, growers in the south already find that the number of buyers in the market decreases as the harvest progresses.

The harvest in Victoria starts in the north, near Mildura, and progresses by a week to about a fortnight into the southern Mallee, the Wimmera and the Western District. It is quite common for a group of buyers ... to buy up in the middle if there is a good harvest and good quality grain there. By the time the harvest gets to about Horsham, at Christmas time, very often some of them have pulled out of the market. Usually, by the time they get to Lake Bolac, in mid-January, which is the last area of Victoria to be harvested, it is quite common for there to be only one buyer left in the market.⁵³

Consultation with growers

2.55 One of the greatest sources of concern to growers was that the government had not consulted directly with them in developing the proposed changes. One grower left the committee in no doubt as to who it should be speaking to about the proposed changes.

... this is our industry; you ask us. We are the bottom line and you should talk to us first before you start talking to traders.⁵⁴

51 Mr John Crosby, *Committee Hansard*, 27 March 2008, pp. 26-27.

52 Mr Jeff Fordham, *Committee Hansard*, 31 March 2008, p. 2.

53 Mr Alan Malcolm, *Committee Hansard*, 26 March 2008, p. 93.

54 Mrs Velia O'Hare, *Committee Hansard*, 26 March 2008, p. 73.

2.56 However, the committee also received evidence that suggested consultation with the grower community is not without its challenges. This was illustrated in the committee's questioning of Mr Peter Woods, Acting Chief Executive Officer of the Export Wheat Commission (EWC), about the consultation process undertaken in relation to the development of the proposed accreditation process. The following exchange highlights the problems associated with determining appropriate grower representation:

Senator Joyce – You talked about consultation with growers, your engagement with wheat growers. Can you give me a summary of how many people you met and how you ascertained their views.

Mr Woods – With regard to growers, we invited the state grower representative organisations to come to our consultation meetings. There were representatives from the four organisations in Western Australia and from South Australia, New South Wales, Queensland and Victoria. We also met representatives from GCA, GGA and the Eastern Wheat Growers association.

Senator Joyce – So how many people met with you, in summary?

Mr Woods – There was face-to-face consultation, but some people could not make it, so we hooked those particular people up by phone. Representing those groups there were between two and four people from each group.

Senator Joyce – So there were four groups from Western Australia?

Mr Woods – Yes.

Senator Joyce – And four from South Australia?

Mr Woods – There are four representative grower groups in Western Australia and one in South Australia, one in Victoria, one in New South Wales and one in Queensland. We also met with GCA, GGA and the Eastern Wheat Growers.

Senator Joyce – So that is 11 groups. You say you averaged between two and four from each group, which is three. So you met a maximum of 33 people?

Mr Woods – Grower representatives.

Senator Joyce – So you met 33 people, and that determines that you know the majority of the views of the growers?

Mr Woods – Those organisations are representative of the growers.

Senator Joyce – How do you determine that?

Mr Woods – I do not have to determine that. We have grower representative bodies in each state and we have met with them.

Senator Joyce – Could I suggest that you have public meetings in some of the major regional towns to determine the views of the growers.⁵⁵

2.57 The Pastoralists and Graziers Association (PGA) of WA, also told the committee that industry groups are not always representative of growers, or may only represent a particular segment of the grower population.

Most grain growers across Australia are not members of a State farm organisation (such as NSW Farmers, VFF or WAFF). Informal estimates on the level of grain grower representation have been put as low as 25 per cent in the Eastern States.⁵⁶

2.58 Councillor Jim Alexander, President of the Shire of Beverley, also told the committee about the difficulties of getting young producers involved in the consultation process:

We went to young producers. These are young people that have their future in the industry – I am talking about 25-year-olds to 45-year-olds. We said: 'There's a Senate hearing. We know you mightn't understand the full ramifications, but why don't you come and expound your wishes and so on?' They said to us straight out: 'We went to a meeting in Beverley.' There were 300 producers. Senator Adams was there. There was a 98 per cent vote in favour of a single desk. We got them all lined up for the Ralph report when it came to town. We wanted them to put forward their wishes – and everybody in Australia wants their younger types to do that. After that, nothing happened, so they have said: 'No way. We're not wasting our time. We've got plenty of work to do at the moment. We're not going down to Perth to talk to some mob of senators who'll take no notice of us.'⁵⁷

2.59 The committee notes that the debate about the degree to which certain grain industry bodies might be representative of the broader grower population extends the question of whether there is a role for a peak body to represent the interests of all grain growers. The committee notes that while there does appear to be a role for such a body, there does not appear to be a single grower organisation that could confidently claim to represent the grower community on a national basis.

2.60 Mr Angus McLaren, from the Eastern Wheat Growers Group offered the following suggestion:

Although not covered in the legislation, we believe there is a need for an industry peak body. Ideally this peak body would encompass all grains. The oilseeds, pulse and barley industries have already established peak bodies that seem to operate reasonably well. We believe that a peak industry body will be formed some time down the track, once the industry has regrouped from the destructive infighting of the past decade. There is a need for an industry peak body to coordinate industry good activities and perform those industry good activities in which benefits cannot be quarantined and which

56 Submission 29, PGA Western Graingrowers, p. 4.

57 Councillor Jim Alexander, *Committee Hansard*, 31 March 2008, p. 69.

therefore will not be performed by the private sector, including trade advocacy and generic promotion of Australian wheat.⁵⁸

Conclusion

2.61 The committee is aware that a number of the issues raised in this chapter are being considered in detail as part of the WIEG process. However, the committee has drawn attention to them here as they provide important context for its examination of the draft bills. The committee notes the strength of feeling amongst some growers about the perceived benefits of the single desk. The committee also notes the level of concern within the wheat export industry in relation to the need for certainty and security in the lead up to the coming season and into the future. The committee understands the important role that access to accurate and timely information will play in the transition to further deregulation in the wheat export market and going forward.

58 Mr Angus McLaren, *Committee Hansard*, 22 April 2008, p. 3.