

Submission Opening Statement Senate Committee Hearing into
Wheat Export Marketing Bill 2008

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Senators,

Let me say from the outset that we are not here to defend AWB for their actions in Iraq but we do intend to oppose in the strongest possible manner the abolition of the export monopoly and single desk marketing system, and the consequential demise of the National Pool.

Firstly the initiative of the AWB to introduce incremental payment scales for protein as well as moisture and screenings quality parameters led to industry adoption of quality payment, and eliminated the cliff-face drop in prices between grades.

Secondly AWB initiated varietal payment scales, not only for the pool but also for its fixed tonnage contracts. The rest of the trade ultimately had to adopt at least quality increments.

It is of note that generally international traders operating in the Australian domestic market did not offer varietal payment contracts as it would have meant they would have to purchase out of spec grades.

The assumption made in article 6.04 of the WIEG Discussion paper, that AWB and others will continue this type of payment is questionable.

The loss of the National Pool is already costing growers money. Currently neither AWB nor any other buyer is offering forward prices for wheat with incremental pricing or varietal pricing.

These two initiatives together have underpinned the production of quality wheat in Australia as they have provided growers with the incentive to make the investment in the extra input costs required for high grade wheat production. The penalty of cliff-face grade pricing was removed, had factors outside the growers control contributed to a lower grade outcome.

Monopoly exporter status was fundamental to offering such a payment scheme, as it ensured, through a national based pool, reduced supply risk and access to all grades.

Just as I mentioned in the domestic market example, there is no incentive for an international trader to offer varietal payment scales if they only want to export premium grade wheats. Conversely, there is also no incentive for a domestic pool that is accumulating grain for the intensive stock industry.

For example, the 06 Graincorp grade based pool did not perform as well as the AWB variety based National Pool. In fact Graincorp sold wheat from their pool to the AWB pool.

Because of climatic uncertainty, state based pools cannot provide customers with surety of supply. North America and Europe can produce a lot of wheat in a short time. A single desk marketer is best suited to competing against the rest of the world when dealing with single desk buyers.

The Australian wheat grower is faced with climate uncertainty, as well as pressures of dramatically increasing fuel and fertiliser costs. In the past, collective marketing and the incentives mentioned earlier have provided industry stability and quality certainty. Those wishing not participate could market their grain through a range of other avenues, domestically. (It should be noted that the National Pool was the instrument that put a floor in the domestic price.)

As the Cole Enquiry progressed a question mark fell over the future of the AWB and the pool. Many growers used hedging through the Chicago Board Of Trade and Australian derivative products, such as bank swap. The losses have been staggering and enormous in comparison to the perceived shortcomings of the National Pool from time to time.

If the proposed industry reforms are designed to corporatize farming in Australia they may well succeed but the social as well as economic cost to rural Australia will be enormous.

If the proposed industry reforms are designed to transfer profits from the Australian wheat industry to multi-national companies they will succeed.

If the proposed industry reforms are designed to drive young people from the industry they are already succeeding.

