



A submission to the

**Senate Rural and Regional Affairs and Transport Standing
Committee**

Inquiry into

**The Wheat Export Marketing (Repeal and
Consequential Amendments) Bill 2008**

April 4th 2008

Prepared by

Malcolm Bartholomaeus Dip Ag (RDA), M Ec, MBA, MAICD

Callum Downs Commodity News
6 Gilbert St
Gilberton SA 5069

Ph (08) 88422781
Fax (08) 88423078
Mobile 0411 430 609
Email callum@capri.net.au

Executive Summary

The bulk wheat marketing system needs to maximise returns to growers, provide secure returns to growers, provide equitable returns to growers, enable full supply and stock information to be freely available, provide industry good functions at low cost and paid for by all growers, deliver a full range of pool and cash products to growers, and ensure that all prices shown to growers are truthful and represent the true value of their grain.

The old single desk system only provided the first three outcomes. This is the main reason for the failure of the old system. Failure to recognise this and rectify the problems is why a new single desk has not been able to be established. The new deregulated system must deliver all seven outcomes.

The accreditation system appears to prevent individuals and co-operatives from becoming accredited, and will make it difficult for new entrants to become accredited because of the requirements for previous business records.

The provisions to cover the companies who also manage export terminal facilities does not cover access to the upcountry facilities as well. The proposed provisions may result in underinvestment in export infrastructure and over investment in grain accumulation infrastructure.

The proposed legislation does not ensure that growers are truthfully and fully informed about prices and pool returns, which may compromise the outcome to maximise returns to growers.

The proposed legislation does not address the issue of secure returns to growers, because those who accumulate grain from growers are outside the accreditation system. There may need to be another level of accreditation to cover grain accumulators, systems where title of grain does not transfer until it has been paid for in full, and possibly bringing pools under the AFSR Act.

Equitable returns to growers may be compromised under the proposed system. The role of the WEA should be extended to monitor returns across the country, so that action can be taken if there are unexplained differences in returns between regions.

To prevent market failure it is essential that there be freely available monthly reports on production, stocks, and weekly reports on export shipments and export sales. In the absence of this there will be risk that Australian wheat will be over committed, and in years of drought, prices may move higher than they should, or grain might be imported when it is not required.

Not all the industry good functions can be left to the market as proposed by the Industry Expert Group. Any activities where the benefits cannot be quarantined by those who have paid for them, will eventually not be carried out. We need a national wheat body, funded by all growers, to carry out some industry good functions that will be at risk.

The provision of competitive marketing products to growers will be at risk if there are any impediments to the competitive operations of any grain accumulators and exporters. The receipt and storage system pre export is where the danger lies.

To ensure that growers are not exploited, all pool estimates must represent the true value of the grain, and/or exactly what the pool operator intends to actually pay the grower. This is currently not the case. If this is not rectified, some growers will be exploited under the proposed legislation. It can be covered by truth in pricing legislation, bringing pools under the AFSR Act, or by accrediting those who accumulate grain from growers.

Malcolm Bartholomaeus is a Grain Market Analyst and Grain Industry Commentator, and a grain grower from the Clare Valley in South Australia.

Since 1991 he has been writing and publishing Callum Downs Commodity News, a Grain Marketing Newsletter providing grain growers across Australia with price information and marketing advice. He also writes two columns each week for Rural Press. One of these columns is published in the Stock Journal in South Australia. The other column is syndicated nationally in Queensland Country Life, The Land, Stock and Land, and Farm Weekly.

He is also a Registered Representative of a licensed futures broker, and is on the Compliance Committee for an ASX listed Managed Investment Scheme.

Preamble

The Bulk Wheat Exporting system for Australia needs to deliver the following outcomes.

- **Maximised returns to growers.** The system need to promote lower marketing costs, and higher prices in export markets.
- **Secure returns to growers.** The system must reduce the chances of growers being left without payment for grain delivered into the export storage and handling system.
- **Equitable Returns to growers.** Growers in one part of the country should not disadvantaged compared to another, after accounting for location differentials (including proximity to export markets), and storage and handling costs. Growers should also be adequately rewarded for quality.
- **Full independent monthly reports on production and stocks, and weekly reports on export sales and export shipments.** All players in the market must be fully informed so that market failure does not occur.
- **Lower total fixed costs for the wheat exporting system and industry good activities, with all beneficiaries covering the cost of industry good functions, not just those who happen to be exporting.**
- **A full range of pool products and cash alternatives with cash prices that are competitive with pool returns.** A competitive transparent market with real choice for growers.
- **Truth in pricing** Pool returns posted for growers that represent what the pool operators genuinely intend to pay to growers net of all costs, charges and deductions (apart from statutory levies), and cash prices posted must represent exactly what growers will be paid before deducting statutory levies.

The old AWB based system only focused on the first three outcomes. Failure to deliver the other four outcomes led to the old AWB system failing, with more and more growers calling for its replacement. This was happening in spite of the Iraq affair which finally triggered the move to change.

It is important to note that all of the required outcomes could have been delivered with a newly structured single desk system. The failure of the grower organisations to appreciate that changes to the old system needed to be made prevented a single desk system from being retained. In part this was because some groups of growers who were benefiting from the system without having to pay the costs of the system, were unwilling to give up their privileged position. Those same growers remain vocal supporters of single desk marketing.

It is important to also note that all the required outcomes can also be delivered by a deregulated bulk wheat exporting system

The challenge of the new Wheat Marketing Act is to ensure that the outcomes are delivered under what will essentially be a fully deregulated system, in that there will be no restriction on who can apply for accreditation, and once accredited there will be no restrictions on the tonnages that can be exported, or where an accredited exporter can export to.

The Proposed New Wheat Legislation

The legislation focuses on accreditation of wheat exporters, and the setting up of Wheat Export Australia.

- Exporters of wheat must be accredited under the wheat accreditation scheme
- To be accredited they must be a fit and proper company.
- Exporters must comply with conditions of accreditation, including reporting conditions.
- WEA will administer the system.

To be fit a proper there will be requirements for

- Financial resources
- Risk management arrangements
- The business record of the company
- The business record in situations requiring trust and candor
- The business record of each executive officer
- Experience and ability of each executive officer
- The record of executive officers in situations requiring trust and candor
- The criminal record of the company and its officers
- Orders for Pecuniary penalties against the company
- Contravention of UN sanctions
- Contravention of laws relating to other grains in the past.
- The company not to be externally administered
- If the company also controls export terminals that they allow access to others to use those facilities.

Who Can Be Accredited

The initial problem seems to be that you have to be a company to be an accredited exporter. That rules out individuals and trusts and co-operatives, unless there is a company in the structure somewhere. Why does that need to be so?

It will also make it hard for new entrants to the market if they are startup companies. How does a new company have a track record to prove that they should be accredited? How can a farmer co-operative, newly set up, jump the hurdles without a business record? I suspect that the rules will be bent in some cases.

Current Storage and Handling Companies Who Control Export Terminals

The proposed legislation seems to suggest that if GrainCorp, ABB or CBH fail to give proper access to their export terminal facilities, then they themselves could lose accreditation as an exporter. This is designed to force those companies to give unhindered access to their export facilities. ***It does not seem to cover the storage and handling facilities that feed into those export facilities that they also monopolise, or have a dominating market share.***

Unintended Outcomes

- 1. It will stop any large multinational from building an export facility, (or AWB for that matter) because they will have to make it available to everyone to use.***
- 2. It will probably stop the current players from developing new facilities because they will have to build it for others to use as well. It may become very difficult to get a return on that investment.***
- 3. It may force other players to have to build their own up country receival facilities because the legislation does not guarantee access to that part of the system.***

Basically we may get underinvestment in export infrastructure, and potentially capital being invested in duplicating up country receival and storage facilities, because there is no attempt to force access to

that part of the supply chain, which is also heavily controlled by the existing operators of the export terminals.

Maximising Returns to Growers

The proposed legislation should allow multiple accredited exporters operating in all wheatgrowing regions. The only impediment to full and free competition could be access to the receival and storage system upcountry, as discussed above.

In theory the legislation will provide for enough competition that the market itself should work in a way that maximises returns to growers. Exporters will have to maximise the prices at which they commit to sell Australian wheat, and minimise their costs, to make themselves attractive to growers.

What the proposed legislation does not cover is any mechanism to ensure that growers are truthfully and fully informed about prices and pool returns being posted to ensure that market failure does not occur because of a non transparent pricing mechanism.

Legislated truth in pricing would at least overcome the problem of inflated prices and pool returns being posted to attract grower business. At the moment the main issue is with pool returns where returns are posted before all relevant costs have been deducted, including relevant finance charges for loans, advances and for delayed payments.

Pool returns from one company cannot be compared with those from another, and pool returns are always inflated relative to cash prices. If the legislation removed these anomalies then it would reduce the risk of growers being caught accepting a lower final return than they should have.

Given that pools are basically financial products, removing the exemption from the AFSR Act could also be used to make sure that pool returns are quoted to growers in a truthful manner.

Secure Returns to Growers

The old system provided very good security of payment to growers, which was further boosted when AWB Ltd moved to make each pool an independent trust to insulate the pools from the activities of the parent company.

The proposed legislation does not address the issue of secure returns to growers. It does address the reputation of the Australian industry by monitoring the activities of accredited exporters in the export market, but that does not translate into how they behave with growers.

In fact the legislation assumes that those who are accredited to become exporters, will also deal directly with growers in accumulating that grain for export. This is a false assumption. At one extreme there could be one set of companies accumulating grain from growers and paying growers for that grain, and another set of accredited exporters who buy that grain from the intermediaries and export that wheat.

In reality there will be some companies who do both, and some companies who only deal with growers and others who only export.

I cannot see that the legislation provides any protection to growers from those who accumulate their grain. Anyone can set up and buy grain, or run pools, and as long as they do not try and export directly, they fall outside this legislation and can do what they like - ie they do not have to have any level of good business record.

I think there needs to be another level of accreditation, and rules, to be followed by those who accumulate grain from growers, and that the exporters should be on notice that if they deal with anyone who accumulates from growers who then fail to meet the requirements, the exporter will also lose their accreditation. That would really tighten up the trail of business dealings between growers and final export destinations.

Those operating pools might have to adopt the trust structure that will continue to be used by AWB Ltd. As well, there could be legislated minimum payment terms for pools. The precedent for this is the legislated system for paying grape growers in the South Australian Wine Industry. In that instance any wine company with outstanding payments is barred from buying grapes from the next vintage.

Given that in pools the pool operator currently takes ownership of the grain delivered by growers, and then uses that grain as security to borrow, growers could find themselves in a similar situation to clients of the failed stockbroking firm, Opes Prime, if the pool operator defaults on some of those borrowings. The risks of this are greater under the proposed system than they were when AWB was the sole exporter.

Grower security might be covered by legislating that title to the grain remains with the grower until it has been paid for in full, so that in the event of any company collapse, growers do not become unsecured creditors as is currently the case. Growers should be able to be the same as any other supplier of a product in our economy, who retains title of the goods supplied until they are fully paid for.

The problem with that is that the company receiving the grain from the grower will probably need title to that grain so that the grain itself can be used to secure the finance required to operate. Accrediting those who accumulate from growers, and then putting the exporter's accreditation at risk if they deal with those accumulating who default, could provide some security for growers.

Given that pools are basically a financial product in the form of a managed fund, removing the exemption from the AFSR Act would ensure that only proper and fit companies could operate, and there would be some checks and balances in place to provide some protection to growers.

Equitable Returns to Growers.

The old single desk system provided equitable returns to growers by ensuring that all growers benefitted from all the markets that Australian wheat goes to, with quality being rewarded as well. The proposed legislation does not address this issue and does not empower WEA to monitor this issue.

Under the old system, the differences in returns for identical wheat around Australia were explainable by differences in the storage and handling costs of the various state based systems, and the additional steaming costs to export from more remote Australian ports. Just because wheat from a Victorian port happened to be the wheat sent to the most distant, lowest paying market, it did not mean that Victorian growers received a lower return than growers from another region whose identical wheat, by chance, happened to be allocated to a close, high paying market.

In theory the proposed legislation will see that continue simply by allowing for maximum competition in all wheatgrowing regions. As long as there are no impediments to operating in the wheat export market, equity should be retained. The biggest risk to equity will be if unequal access to the storage and handling system prior to the point of export (where the latter is covered by the proposed legislation) results in some reduced competition in some regions.

In theory if one trader gets a good sale into one market and sources that wheat from one region, other players will have to try and match the prices being offered to get their share of the available grain, or they will move to another region to get grain, therefore leveling out the prices across Australia. In

practice, if grain buyers cannot move easily from one region to another in their accumulation activities, we could see some regions being disadvantaged.

WEA should have as a part of their monitoring charter, the job of monitoring equity of returns between the various wheatgrowing regions of Australia. Any unexplained differences should result in an investigation as to why the market failure has occurred, and measures be taken to rectify the problem.

In the debate about deregulation of the barley export market in South Australia it was the emergence of unexplained differences in barely prices between South Australia, the eastern states, and Western Australia, which saw the South Australian prices being lower than could be reasonably explained, which led to the deregulation of the South Australian barley export market.

Supply Information

We need full independent monthly reports on production and stocks, and weekly reports on export sales and export shipments.

The old single desk system did not provide this and in drought years in particular no-one knew what level of stocks were available for the domestic market (except AWB who could use that for their own advantage). It has led to growers storing grain when they should not, because they had underestimated supplies. It also led to endusers buying too much grain at harvest at inflated prices for the same reason. It led to grain imports when in reality there should have been none.

Basically in 1994, 2002, 2006 and 2007 we have had instances of market failure in the domestic market because of a lack of freely available information on stocks and supplies.

When we add deregulated exports to the mix, it becomes absolutely essential that all players in the market (growers, traders, domestic endusers, exporters) must be fully informed so that market failure does not occur.

The recent report from the Industry Expert Group recognises that if there is an information vacuum, in the cash market we will find risk premiums being applied (ie price discounts) and some players may not operate in some markets (either regions or grades of wheat). That will reduce competition, reduce returns to growers, and increase the chances of inequity in the market. For the Australian futures market there must also be detailed and transparent stock information.

On stocks and production, the IEG are recommending that the ABS would provide production forecasts and actual production, by tonnes, by hectares, by region. Supply would be measured by stocks in storage by major classification by port zone. Exports would be counted by destination by port zone both bulk and in containers.

It is a bit too weak to be of much use to the industry. If we get to a point where a large percentage of the crop is held outside the centralised system for any length of time by growers or traders, those stocks will not get counted properly. We really won't know just how much wheat we do have unless farmer, domestic enduser and trader stocks are drawn into the stock estimates. This will be more of an issue in some regions. As well, we need to know what grain has been committed for export, as well as when it is exported. This is a point of real vulnerability for the industry, and it will end in market failure one day when we have no way of knowing what our supplies are in a tight year, and how much has been committed for export.

We should have an annual census of wheat stocks at, say, March 1st each year. All growers, traders with their own storage facilities, endusers with on site storage, and commercial receivers and handlers (ie the centralised system operated by CBH, ABB and GrainCorp and any other private storage operators) should have to participate. It could be run under the ABS system. It should be no different to the mandatory survey that grape growers have to complete each year.

Exporters should have to report weekly their export sales (ie future commitments) identifying from which crop those sales will be drawn, and ABS should track exports leaving export terminals (ie both bulk and containerised) on a weekly basis. The numbers should be collated and reported monthly, along with revised stock estimates derived from the March 1st census data, actual export shipments, and estimates of domestic use. Regular surveys (possibly quarterly) of major storage operators would assist in keeping estimates up to date and accurate.

Basically we need an information flow that mirrors that of the US. We also need to be able to monitor stocks within Australia to ensure that at any point in time they remain sufficient to be able to meet both projected domestic use, as well as forward export commitments. If that information is freely available, individual operators (eg growers, traders, domestic endusers) should not get caught with an unforeseen supply squeeze. It should reduce marketing errors being made by growers, where in the past insufficient supply data has led to growers holding wheat for later sale when in fact they should have sold earlier, and where endusers have bought wheat for inflated prices, when in fact supplies were plentiful enough to have allowed them to defer those purchases.

Industry Good Functions

We need low total fixed costs for the wheat exporting system and industry good activities, with all beneficiaries covering the cost of industry good functions, not just those who happen to be exporting.

The old single desk system was very expensive to operate, partly because of the industry good functions that AWB were performing. Also, because these costs were only recovered from the pool, not all growers were paying every year to keep the system alive, even though all growers benefitted from the existence of the single desk, and the industry good functions being performed. Even those who sell consistently in the domestic market were benefitting from any work that lifted demand, and therefore the price, for Australian wheat in export markets.

The Industry Export Group has addressed this issue. In summary I think that the IEG have failed to recognise that there are some industry wide functions that will fall through the cracks, whether that be generic technical activities through to promotion and branding, through to lobbying on behalf of the industry. (see submission attached as Appendix A).

Any industry good function where the benefits cannot be quarantined by those who have paid for them, will eventually not be carried out. We will get market failure.

I would suggest that we need an “Australian Wheat Federation” type body that is funded by a levy on all growers, to make sure that some generic industry good function continue to be performed for the good of everyone. It needs to be able to replicate the Wheat Associates body in the US for example.

The IEG have not recommended this and yet no other grain or grain group in Australia can survive without such a body. Why do we have Barley Australia, the Australian Oilseeds Federation, and Pulse Australia? Why are these bodies needed, and why won't the wheat industry need something similar?

Competitive Marketing Products for Growers

Growers need a full range of pool products and cash alternatives with cash prices that are competitive with pool returns. The old single desk system failed to allow this to happen, and is one of the reasons why the system was failing.

To the extent that the proposed legislation opens up the market to full competition in the provision of export marketing services to growers, we should end up with a competitive transparent market with real choice for growers.. ***It will only be the impediments to true competition already discussed above that will prevent this outcome being achieved under the proposed legislation.***

Truth in pricing

Pool returns posted for growers must represent what the pool operators genuinely intend to pay to growers net of all costs, charges and deductions (apart from statutory levies), and that cash prices represent exactly what growers will be paid before deducting statutory levies.

This was not happening under the old single desk system, and while there has been a voluntary code of conduct adopted for the 2007 harvest, it still falls short in that pool returns continue to be posted at inflated levels that do not reflect either what the grain is really worth, or even what the marketers intend to actually remit to growers.

It is an issue that grower organisations have been addressing since 2005 with limited success to date. (Page 14 Appendix A). The issue could be forced by making pool operators adhere to the AFSR Act, or to some truth in pricing legislation making it illegal to display anything other than the true value of the grain, after allowing for the delayed payments associated with pooling.

As suggested earlier, this could form a part of the way accredited accumulators would have to operate to be able to accumulate grain from growers for the bulk export market.

Summary

The proposed legislation should be commended in that it will provide no barriers for fit companies to be able to become accredited exporters of Australian wheat, and that this will be overseen by a body with the authority to be able to remove that accreditation.

As long as competition is really allowed to proceed under the system, returns to growers will be maximised and should be fair and equitable for growers across the country. The main impediment to free competition is likely to be around access to the storage and handling system, as opposed to the export facilities. The former is not covered by the legislation.

The proposed legislation does not cover grower payment security and does not empower WEA to monitor this either. It also does not provide the mechanism for full information on production and stocks to be available to all market players, and does not address market failure in the provision of industry good functions, or in the untruthful way export based wheat prices are presented to growers.

The old single desk system had failed because it did not deliver all the required outcomes. A new single desk system did not emerge because growers did not recognise the failures of the old system, and so could not agree on a way forward that would have delivered the outcomes required via a new single desk.

It is absolutely essential that the industry be now able to move forward in a deregulated way, as suggested by the proposed legislation, but with amendments to ensure that the new system does provide growers with all the required outcomes. The industry must be ready to move forward from July 1st 2008 with relevant legislation in place.

Appendix A

Submission to the Wheat Industry Expert Group Report

Prepared by

Malcolm Bartholomaeus Dip Ag M Ec MBA MAICD
Managing Director Callum Downs Commodity News P/L

Contact Details

Address Callum Downs, Steadfast House, 239 Magill Road, Maylands, SA 5069
Phone (08) 88422781 Fax (08) 88423078
Email callum@capri.net.au

Opening Comment

John Crosby, chair of the IEG, has been on ABC Radio, suggesting that “...current grain handling authorities and all the current international marketing companies would be capable as part of their marketing functions, to be able to carryout such things as crop shaping, technical market support, wheat promotion and branding”.

Basically the IEG are saying there is no role for a centralised body to carry out many of the so called industry good functions on behalf of growers.

I am sceptical of this free market approach. An individual exporter will only spend money on industry good functions if they can quarantine the benefits from that spending to themselves. Any generic promotion or market development where others can get a benefit without having to pay, will fall by the wayside. We will get market failure on this one, and it will eventually cost growers.

Specific Responses

(1) **Industry Strategic Planning** It has not worked in the past, and would only work on an industry wide basis if an industry wide body representing all sectors is formed.

I agree that there is no role for government. A wheat industry body, similar to Pulse Australia, Barley Australia, or the Australian Oilseeds Federation may be able to successfully develop an Industry Strategic Plan for the wheat industry. An industry strategic plan was never delivered by AWB under the old single desk system, and so is not something that will fall by the wayside under the proposed new system

(2) **R&D** The IEG make a lot of comment about the GRDC system. A lot of the role of GRDC has nothing to do with marketing, and has nothing to do with the R&D that AWBI were initiating. GRDC may have had programs that responded to work from AWB and AWBI, but in my view were not trying to duplicate the market oriented research of the single desk manager.

In terms of market research and market development activities, the benefits of these activities cannot always be quarantined so there is a risk that it won't be done as well in a free market if it is left up to individual exporters. I think the IEG are hinting that maybe GRDC will need to pick up some of the more market oriented R&D that AWBI used to do outside the current GRDC portfolio.

I do not think that GRDC is setup to be able to deliver industry wide market development and marketing research for the industry. It is best delivered by organisations whose sole purpose is to market wheat to the global market, as per the old AWB system. GRDC is a regional based structure, led in the main by growers (eg panel chairs are growers), and delivering outcomes to growers. I do not think its charter would cover market development which has been a part of the market R&D sponsored by the old AWB single desk system.

GRDC is not at the coalface of marketing Australian wheat and so cannot be expected to know what research or market development may be required. If GRDC were to take over this aspect of the research previously conducted by AWB, it is likely to get direction from third parties, who may tend to bias that direction for their own requirements. Equally the farmer bias of the GRDC process may not deliver the best marketing R&D outcomes.

If GRDC are given the task, could they do it without increasing levies to growers, and would the benefits of that work flow to growers or would some of it be captured by marketers in the post farm part of the supply chain?

The task of some specific market oriented R&D and market development would be best delivered by a Wheat Industry group whose charter is to enhance the market for Australian wheat. It could be funded in part by growers (a levy on every tonne of wheat produced), marketers (a levy on every tonne exported) and government (recognising the broader public economic good), much as the system in the US.

(3) *Wheat Variety Classification* The IEG proposal is that the Wheat Classification Panel should have representatives from producers, major exporters, the domestic processing industry and independent expertise as required. GRDC could drive the process, appoint the panel and provide secretariat support. Panel members would not be paid because supposedly the benefit of representation goes directly to the organisations they come from.

I disagree. One or two companies or one or two grower organisations will have representatives and they will carry the cost for all the industry. It will be pretty easy for growers on the panel to be out of pocket I suspect, and some companies will foot the bill for others.

Any grower working on this committee will be personally out of pocket because daily sitting fees from their respective organisations are not enough to cover the full costs of being away from the farm business and covering the costs of having someone else working on the farm to cover the absence. Any people operating small businesses in the industry (eg small consulting firms) would have the same issue. It will cost them personally. Employees of large corporations (eg GrainCorp, ABB, AWB, Cargill etc) would not be personally out of pocket, but the shareholders of those companies would basically be covering the cost for the industry. There needs to be a system where no one is personally out of pocket, and where the whole industry pays, not just a few.

(4) *Wheat Receival Standards* Run by NACMA. The precedent is there for other grains, and NACMA already have standards in place based on the current AWB standards. NACMA is an appropriate body to oversee this.

The IEG also drag Golden Rewards into this area. ***Golden Rewards has nothing to do with receival standards.*** It should not be confused with receival standards, just as the payment of oil bonuses on canola by some buyers has nothing to do with the standards required to be able to deliver canola into an exportable position.

Receival standards are about binning grades and meeting export standards. Golden Rewards is a payment system adopted by AWB that can, and is ignored by many other traders. AWB are indicating that they will continue with Golden Rewards for their own products, despite dropping it in the face of current competition in the forward cash market. Whether Golden Rewards (ie a

variety based payment system with increments for screenings, moisture or protein) are paid or not has no impact on the act of delivery, segregation and meeting industry agreed standards.

(5) Information Provision The IEG recognises that if there is an information vacuum, in the cash market we will find risk premiums being applied (ie price discounts) and some players may not operate in some markets (either regions or grades of wheat). For the Australian futures market there must be detailed and transparent stock information.

At the moment AWB produce a Crop Report outlining the quality parameters of their pooled wheat for export. They will do this for their own use, but an industry wide report will no longer be possible with multiple owners of the national crop. *It is difficult to see how this deficiency can be overcome under any deregulated system.*

On stocks and production, the IEG are recommending that the ABS would provide production forecasts and actual production, by tonnes, by hectares, by region. Supply would be measured by stocks in storage by major classification by port zone. Exports would be counted by destination by port zone both bulk and in containers.

It is a bit too weak to be of much use to the industry. If we get to a point where a large percentage of the crop is held outside the centralised system for any length of time by growers or traders, those stocks will not get counted properly. We really won't know just how much wheat we do have unless farmer, domestic enduser and trader stocks are drawn into the stock estimates. This will be more of an issue in some regions. As well, we need to know what grain has been committed for export, as well as when it is exported. This is a point of real vulnerability for the industry, and it will end in market failure one day when we have no way of knowing what our supplies are in a tight year, and how much has been committed for export.

We should have an annual census of wheat stocks at, say, March 1st each year. All growers, traders with their own storage facilities, endusers with on site storage, and commercial receivers and handlers (ie the centralised system operated by CBH, ABB and GrainCorp and any other private storage operators) should have to participate. It could be run under the ABS system. It should be no different to the mandatory survey that grape growers have to complete each year.

Exporters should have to report weekly their export sales (ie future commitments) identifying from which crop those sales will be drawn, and ABS should track exports leaving export terminals (ie both bulk and containerised) on a weekly basis. The numbers should be collated and reported monthly, along with revised stock estimates derived from the March 1st census data, actual export shipments, and estimates of domestic use. Regular surveys (possibly quarterly) of major storage operators would assist in keeping estimates up to date and accurate.

Basically we need an information flow that mirrors that of the US. We also need to be able to monitor that at any point in time stocks within Australia remain sufficient to be able to meet both projected domestic use, as well as forward export commitments. If that information is freely available, individual operators (eg growers, traders, domestic endusers) should not get caught with an unforeseen supply squeeze. It should reduce marketing errors being made by growers, where in the past insufficient supply data has led to growers holding wheat for later sale when in fact they should have sold earlier, and where endusers have bought wheat for inflated prices when in fact supplies were plentiful enough to have allowed them to defer those purchases.

(6) Crop shaping The IEG felt that this would be provided by companies providing price signals back to growers.

I think this is unlikely to happen. Crop shaping is a time honoured system of using one group of growers to subsidise another to get growers as a whole to shift from growing one variety to another. The wheat single desk has allowed AWB to do it, as did the barley single desk with ABB. So, AWB

can pay \$5/t for a few varieties in their pool, just as ABB could randomly pay \$5/t more for Sloop in their pool. In a free market you cannot get away with that unless it is truly market based ie endusers really do pay \$5/t more.

No-one is going to discount a poor variety in case another buyer does not. Why give away market share?

Crop shaping is about providing an economic incentive to change the variety being grown. There may or may not be a premium being paid in the market for a new variety, and so artificial signals need to be sent if switching to a new variety has a long term national strategic advantage. It is not the type of signal that is likely to be sent within a free market.

The IEG also indicate that Golden rewards is a part of crop shaping. I do not agree. Golden Rewards (apart from the Premium Variety payments) is simply a payment system used by AWB, and at any chance non AWB buyers avoid using it. Cliff face pricing and premiums for preferred varieties will do a lot more for crop shaping, although crop shaping in itself is trying to use artificial dollars or straight receival standards to try and direct growers to various varieties.

I do not think we will get anything like the crop shaping that we had under single desk arrangements in the new system. That may be a good thing of course if the artificial price signals being sent by AWB were incorrect (ie if AWB backed the wrong variety on variety classifications, variety premiums etc).

(7) **Technical Market Support** This is seen by the IEG as an essential marketing tool in securing and maintaining sales of wheat. Technical after sales support will be provided by the marketer.

If they do not then the whole reputation of Australian wheat could be damaged if an individual marketer does not have the resources to fix an issue and walks away from it. Maybe the threat of losing export accreditation would work, but I suspect not before damage is done. I think we will see some failures on this one if it is simply left to the individual exporters.

(8) **Wheat Promotion** The key advantages and customer value propositions of Australian wheat against overseas competition is seen as an important marketing tool. It will be co-ordinated by key stakeholders if it is necessary, and exporters will undertake it in specific markets.

I think history has shown that this is necessary, and that it will not happen without some intervention because the benefits cannot be quarantined. I think we will eventually be short changed on generic promotion, and that the US and Canadians will walk all over us.

(9) **Branding** The brands of APW, APH etc are seen as being generic and available for everyone to use. They are not trademarks and are in the public domain. These generic brands will continue to be supported by the classification and receival standards systems.

There has been some unnecessary concern that these generic segregation and payment terms will be lost under deregulation. It is important that they are built into the publicly available receival classification standards managed by NACMA.

(10) **Trade Advocacy** I could never understand why growers who delivered to the AWB pool should foot the bill for trade advocacy that had flowon benefits for all wheatgrowers. It has no role in the new system apart from individual companies making their own representations, and the government making representations on behalf of all Australians.

(11) **Regulatory Advocacy** As above, and it should move to all stakeholders, and not just be paid for by growers who happened to deliver to the AWB pool under the old system.

Industry Initiatives

Although outside their terms of reference, the IEG did comment on an Industry Initiative covering a code of conduct.

One such code of conduct would require

- Standard language and expression of fees, charges and statutory deductions to all types of transactions in material promoting these products to growers
- Posting on silo boards and on the web, the transparent net return figures for all types of transactions to allow growers to make better informed decisions.
- Expression of base marketing costs charged against all types of transactions as either a flat per tonne or a percentage of gross value
- Current access to bulk handling and storage facilities.

Basically they are addressing pools and the way pool returns are currently posted in a less than transparent way at silos. The IEG also notes that pools have limited disclosure requirements under the Financial Services Reform Act 2001, and that growers are unsecured creditors. This is going to become more of an issue in a more open market.

So, lets hope that someone picks up on this because right now the actual IEG recommendations do not cover this, and neither does the proposed Wheat Marketing Act.

To date the agreed protocols, basically used for the 2007 harvest, did little to clarify the true net returns from pools, and did not make pool estimates posted at the silo comparable to cash prices. The main reasons are that there is still no attempt to present the Net Present Value of pools.

In the first instance, pools that explicitly have a finance charge deducted before growers are paid, are not represented to growers with that finance charge educated as a pool cost, because it would leave those pools looking uncompetitive against pools which have no advances or loans associated with their payment systems.

Secondly, even where online pool calculators do show the estimated finance charge to be deducted, there is still no allowance made for the timing of payments to be made. So, we can have two products with seemingly identical ESR's, even after deducting finance, and yet one pool paid out in full within 9 months would be worth a lot more than an apparently identical pool being paid out over 18 months.

There are a number of reasonable principles on how prices should be represented to growers that have been developed in discussions with SAFF, VFF and grain marketing bodies like GrainCorp, ABB and AWB. (The latest version was presented to the industry in 2005)

A Set of Principles for Quoting Cash Prices and Pool Returns at Silos, on Web Sites and in Contracts

Key Recommendation

That the industry adopt a set of principles that result in all prices posted at silos and for contracts on individual buyers' sheets, reflecting the true net value of the grain to the grower before payment of statutory and industry levies.

Principle 1

That charges deducted by the marketers and retained by them be deducted from prices and pool returns shown at the silo.

Principle 2

That charges deducted by marketers to pay to other service providers on behalf of growers be deducted from prices and pool returns shown at the silo.

Principle 3

That all prices and pool returns be posted net of receival fees, marketing and finance costs that will be charged direct to growers by any marketer or storage provider. (The main example not picked up in Principles 1 & 2 are CBH's receival fees on deliveries into their system in Western Australia.)

Principle 4

That ideally each marketer would only post two pool estimates at silos, one being the distribution pool estimate, and the other being the estimated return from an advance pool payment option. If an estimate is to be shown for each pool product on offer, each estimate should reflect the true value of the product to the grower as per Principles 1, 2 and 3.

Principle 5

That all prices and pool estimates continue to be quoted on a GST exclusive basis.

Principle 6

That all prices continue to be quoted before allowing for statutory and industry levies

Principle 7

That all prices posted at silos and for contracts on individual buyer's price sheets, reflect the true net value of the grain to the grower before payment of statutory and industry levies

(Source: SAFF and VFF Silo Grain Pricing Project, September 2004, Revised August 2005 Prepared by MK Bartholomaeus)

The current agreed initiative (as put into practice in 2007) still does not cover principle 4 in terms of also deducting finance charges where applicable.

Principle 4 was originally presented as a Net Present Value, but was changed because of disagreements about what discount rates would be used etc. However, with wheat prices in the \$400 - \$500/t range, and difference in payout times of up to 8 months, a true Net Present Value pool estimate would be the most transparent.

I hold the view that in the absence of broad industry agreement and self regulation on this issue, that the existing FSR Act, and the government's proposed truth in pricing legislation should be used in full to tighten up the grain industry and the way it quotes pools.

The track record on this issue is not good, which is why it has still not been resolved some four years after the process was initiated. Typically we get to that point in the year where someone says it is too late for this year. It is then left until after harvest ie about February/March. Then after a bit more procrastination someone says there is not enough time to get it done before the next harvest, and so it rolls on because no-one has the will to tackle the issue. A bit of legislative stick should smarten things up I would suggest.

Conclusion

I think that the IEG have failed to recognise that there are some industry wide functions that will fall through the cracks, whether that be generic technical activities through to promotion and branding, through to lobbying on behalf of the industry.

In my brief perusal I do not see them recommending a national “Australian Wheat Federation” type body. Why not? No other grain or grain group can survive without one. Why do we have Barley Australia, the Australian Oilseeds Federation, and Pulse Australia? Why are these bodies needed, and why won't the wheat industry need something similar?

While outside of the scope of the IEG brief, the industry initiative that they did touch on, strikes at the core of the good and the bad of the old system. AWB dictated the way that pools were presented to growers. This was a negative that the industry has had to live with.

On the other hand the AWB system delivered industry good functions to the industry (probably unnecessarily expensive), payment security to the industry, and post harvest price risk management and stability to the industry. These are all activities that AWB brought to the industry, both good and bad, that need to be picked up, or corrected, in this opportunity we have to move forward with a new system. Interestingly payment security and post harvest price risk management and price stability are not viewed as industry good functions, and so have not been addressed by the terms of reference for the Industry Expert Group.