

Grains Policy Institute P/L

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The Committee Secretary
Standing Committee on Rural and Regional Affairs and Transport
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Please find attached a submission by the Grains Policy Institute to the Committee's considerations into the *Wheat Export Marketing Bill 2008* and the *Wheat Export Marketing (Repeal and Consequential Amendments) Bill 2008*.

Yours sincerely



David Ginns

CEO

Friday, 4 April 2008

Inquiry into Wheat Export Marketing Bill 2008 and
Export Marketing (Repeal and Consequential
Amendments) Bill 2008.

Senate Standing Committee on Rural and Regional
Affairs and Transport

Submission by

The Grains Policy Institute P/L

April 4th 2008

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About the Grains Policy Institute.

The Grains Policy Institute is a subsidiary of GrainCorp Operations Ltd and is funded by GrainCorp and the CBH Group. The GPI works with

- GrainCorp, The CBH Group and ABB Grain,
- Members of the Australian Grain Exporters Association,
- Farmer groups such as the PGA Western Grain Growers, the West Australian Grains Group, the Eastern Wheat Growers Association and individual farmers,

The aim of the GPI is to develop and extend commercially focused grains industry policies.

The GPI was formed in September 2007 to balance the pro-monopoly policies of the Wheat Export Marketing Alliance (WEMA). It was the belief of the participants in the GPI that the WEMA represented only a minority view in the grain growing sector of the industry.

- The organisations that constituted the WEMA, State farming organisations and single issue interest groups, have as their members approximately 15% of the total number of grain farmers across Australia.
- The 'production' represented by this 15% of the industry is estimated at approximately 10% of an average annual harvest.

The 'grower owned and controlled' single desk being proposed by the WEMA was unworkable.

- The aim of WEMA was to form a company capable of selling up to \$5 billion worth of wheat into a competitive international market. WEMA members had no relevant commercial expertise and no capital.
- Their plans did not account for the current commercial behaviour of Australian grain growers, where up to 80% of all wheat grown by them is sold to a company other than the monopoly export holder at or around harvest,
- Had their model been introduced, growers' financial arrangements would have been significantly altered, as the trading system proposed didn't include a 'pool advance'. WEMA was proposing that growers only be paid when their wheat was sold to an export customer, not to an export pool. This would have dramatically increased growers' interest costs and precipitated a liquidity crisis in rural Australia, as altered income patterns flowed across the community.
- The AusWheat plan was predicated on the re-introduction of compulsory acquisition of wheat, reversing two decades of successful de-regulation of the domestic wheat market.

The WEMA was approaching the task of addressing the future of the wheat export sector from an agri-political perspective, not a commercial perspective. This represented a direct threat, not only to the founders of the GPI, but all organisations and individuals interested in promoting the growth of the Australian wheat industry. The GPI 'Wheat08' commentary initiative (September to December 2007) was aimed at balancing the pro-monopoly misinformation extended by WEMA.

During 2008, the GPI has been active in promoting a reform agenda and continues to balance the agri-political debate over industry regulation, with clear, commercially focused commentary and policy. The members of GPI and the participants in its policy processes support the Government's Bills and the aim of lifting the heavy burden of regulation from the Australian wheat industry.

The Wheat Export Marketing Bill 2008.

Overall position.

The Government's Wheat Export Marketing Bill 2008 has been welcomed by the organisations that contribute to the GPI, bulk handling companies and pro-reform growers and grower groups.

Due to the nature of the Bill and the complexities of the wheat industry, there is a need to amend the draft Bill to ensure that the provisions therein will not precipitate unintended consequences that will be deleterious to the industry in the medium to long term.

The most significant section of the Bill is Section 11 – Eligibility for Accreditation. The intention of this section of the Bill has significant merit, as it closely mirrors the successful bulk barley exporter licensing scheme introduced in South Australia during 2007.

Section 20 of the draft Bill will impose a significantly higher level of regulation than is needed, or we believe was originally intended.

The organisations that own and operate grain storage and handling networks, and operate grain port terminals, have publicly stated support for inclusion of an 'access test', but the current provisions, applying Section III A of the Trade Practices Act 1974, unintentionally shifts the focus of the 'access test' away from meeting the accreditation requirements under S. 11, to imposing a new regulatory structure over ports.

This may precipitate serious unintended consequences for the management of port infrastructure, the value of that infrastructure and the cost of using that infrastructure.

Suggested Improvements to the Bill.

1. Statement of Objectives.

An expanded statement of Objectives could be included in the Bill, where matters relating to the exercise of the powers of the regulator are clarified, with specific reference to;

- The broad priorities and objectives of the regulator, including a clear definition of who the regulator is responsible to, who it reports to and what its regulatory priorities are.
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2. Sunset provision.

- A clause that sunsets the Act on 1 July 2011, unless the Act is amended to extend its operation, should be included.
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3. Section 11 – Possible regulatory 'double-up' with ASIC.

There is significant scope within Section 11 of the Bill to 'double up' on regulation currently undertaken by the Australian Securities and Investments Commission (ASIC), particularly those criteria in the Bill that relate to corporate governance and prudential management of a corporation.

The proposed regulator, Wheat Exports Australia (WEA), will not have relevant experience or skill to make judgements on matters that relate directly to corporate governance or prudential matters that relate to the Corporations Act 2001, such as matter referred to largely in S. 11 (c) (i, ii, iii, iv, v, vii, viii, ix, x).

The new regulator should not duplicate corporate governance judgements of the sort currently overseen by the ASIC.

- Provision should be made within the objectives and general operational brief of WEA for consultation with the ASIC on these matters; where WEA would rely on judgements made by this 'superior regulator' for guidance.

This will ensure that relevant experience and expertise is brought to making judgements on governance and prudential matters, along with ensuring that there is regulatory consistency and minimise regulatory duplication.

4. Section 12 – Recognition of equivalent licensing or accreditation schemes.

Recognition of equivalent export accreditation or licensing schemes operated under State jurisdiction should be provided for under S. 12.

Where a scheme, such as the South Australian bulk barley licensing scheme, is 'recognised' on the basis of the shared intent of the scheme and where there are similarities in the assessment criteria and granting provisions, the holding of a licence or accreditation under a 'recognised' scheme should be considered by the regulator of the Commonwealth accreditation scheme as fulfilling all or part of the its accreditation requirements.

In the case of the South Australian barley exporter licensing scheme, holding a current licence should fulfil accreditation criteria noted under S. 11, with the exception of;

- 11. (1) (c) (xv) (United Nations sanctions provision) and
- 11. (1) (e) (the Access test).

This approach would be consistent with National Competition Policy provisions for 'mutual recognition' of complementary State and Commonwealth legislation, and a desire to reduce the general burden of regulation on business.

It will also speed the initial issue of bulk wheat exporter accreditation and reduce the cost of operating Wheat Exports Australia, reducing the cost burden imposed on both exporters and growers (who fund WEA through the Wheat Export Charge).

- This will require the insertion of a new sub-section under S.12.

5. Section 20 – Focus of the access test.

The purpose of the Wheat Export Marketing Bill is to ensure that;

- A higher level of competition is introduced into the Australian wheat market,
- New bulk exporters of wheat are accredited and enter the market,
- All accredited exporters are 'fit and proper' companies; and,
- All accredited exporters of wheat have 'fair and equitable' access to export infrastructure.

The principle of applying an 'access test' (S. 20) and thus seeking a commitment from owners of port terminals to provide access is reasonable, but the manner in which such a commitment is sought and implemented is critical to its efficacy.

Care has to be taken to ensure that any provisions within the proposed Act don't impose an additional regulatory burden, as this will increase costs (which will be passed back to growers) and may significantly devalue the infrastructure being regulated.

It is the understanding of the companies that own port infrastructure that the Government originally intended oversight of ports to be 'light handed'; that the focus would be on seeking assurances from port terminals owners *that they would not manage their assets in a manner that would discriminate against, or exclude, new bulk wheat exporters.*

Increasing regulation in the manner implied by the current wording of S. 20 is counter to the Competition and Infrastructure Reform Agreement (CIRA) agreed by the Council of Australian Governments (COAG) in 2006 which stated that *'ports should only be subject to economic regulation where a clear need for it exists'* and *'each jurisdiction will undertake public reviews of its ports to determine whether regulation is warranted'*.

Clarifying the focus of the access test.

The purpose of the S. 20 is to meet the accreditation requirements detailed under S. 11 of the Wheat Export Marketing Bill (2008).

Bulk handlers already provide open access to their terminals. In a number of cases this is through State legislative schemes. In addition, general competition principles under the TPA also regulate anti-competitive behaviour. Imposing the access test as a condition of accrediting a company that wishes to be both an infrastructure service provider *and* a bulk wheat exporter, is an additional 'safeguard' against the possibility of anti-competitive behaviour.

Therefore S. 20 should not seek to impose new regulation on grain export terminals or storage and handling facilities via the ACCC and Part III A of the TPA. Section 20 should take the minimum approach to ensure that a company that is both an infrastructure owner and a bulk wheat exporter, provides other accredited bulk wheat exporters fair and reasonable access to its facilities on commercial terms.

Thus the inclusion of references to Part III A of the TPA in S. 20 is not appropriate.

Part III A of the TPA is principally designed to rectify anti-competitive behaviour which arises from the ownership of bottleneck infrastructure, and allows for the ACCC to engage in intrusive asset valuation and price setting.

In other words, the intent of Part III is that it be applied where an organisation has been engaged in behaviour that could be construed as 'anti-competitive'.

There is no evidence, based on past or current behaviour, that bulk handling companies have acted, or would act, in a manner that would either be anti-competitive or create a 'regional monopoly'.

If infrastructure users have concerns over the management of ports or other infrastructure, or evidence of anti-competitive behaviour, they currently have the legal right to seek;

- a) An investigation by the ACCC into allegations of anti-competitive behaviour,
- b) A declaration under the TPA of infrastructure as 'essential' and thus subject to active price control measures.

To date, no user of grain port terminals has sought to have such a declaration.

Inclusion of reference to Part III A of the TPA in S. 20 of the Wheat Export Marketing Bill is equivalent to such a declaration being made, without an originating complainant or due process being followed.

It would appear that the push for 'heavy handed' regulation of ports, which will be the outcome should the current form of S. 20 become law, has come about as a result of lobbying, principally by AWB, and their contention that 'regional monopolies' will develop if regulation of storage and handling is not increased. (For more discussion of regional monopolies, see point 8. following).

Reviews of current access regulation have indicated that moving to 'light handed' regulation is important to ensure that significant commercial disincentives are not imposed upon port terminal owners, that would see investment in the infrastructure diminish to a point where the efficiency of ports is reduced.

Calls for further regulation of ports, particularly those seeking regulation of ports under Part III A of the TPA, publication of daily shipping information and weekly outturn reports, should be resisted, as the imposition of such additional measures is unreasonable and unwarranted.

Moving to 'heavy handed' regulation, such as that implied by the application of Part III A of the TPA, would be inappropriate and commercially costly, both to the owners of the infrastructure and, in the long term, to those organisations wishing to use the infrastructure.

Specific amendments to S. 20 of the Wheat Export Marketing Bill (2008) should include;

- a) Insertion of a clause (new 20 (1) (a)) that recognises existing State regimes regulating ports and / or storage and handling facilities.
 - If a port owner is subject to existing State regulation, then this clause would meet the WEA 'access test' for the purposes of accreditation under S. 11.
 - Such a provision would apply unless or until the relevant State regime was significantly modified.
 - This approach would be consistent with National Competition Principles for 'mutual recognition' between State and Commonwealth regulations that seek to achieve similar outcomes.
 - It would also be consistent with the Government's election pledge to reduce regulatory duplication imposed on business.
- b) Insertion of a new clause (new 20 (1) (b)) that provides for an infrastructure owner lodging **with the regulator of the Act** (Wheat Exports Australia) an undertaking for the purposes of meeting the accreditation criteria described under S. 11 of the Act. That is, that an infrastructure owner applying to become an accredited bulk wheat exporter, can only do so on an undertaking that the company will provide fair and reasonable access to its facilities, on commercial terms, to other accredited bulk wheat exporters.

Such an undertaking would guarantee access to infrastructure and would include undertakings to publish service fees and charges, infrastructure use protocols and port management guidelines and include a binding disputes resolution mechanism.

 - Such an undertaking may resemble those being developed in conjunction with the Victorian Essential Services Commission by GrainCorp and Australian Bulk Alliance.
 - An undertaking would be lodged with the regulator of the Wheat Export Marketing Act (2008) as a condition of receiving bulk wheat export accreditation, a requirement under S. 11.
 - **If a port owner fails to meet its undertaking under the Act, the regulator (WEA) has the power to withdraw bulk wheat export accreditation (S. 17 of the Act).**
- c) Removal of current clauses 20 (1) (a) and (b)
 - These would be replaced with those mentioned above - points a) and b).
- d) Removal of clauses 20 (2) and (3).
 - Users of port terminals currently have the right under the TPA to apply to the ACCC for declaration of infrastructure as 'essential' if they believe that the infrastructure is being managed in a manner that is not consistent with that Act.
 - Making provision for this in the Wheat Export Marketing Bill (2008) creates a number of legal complexities and possible conflicts between the TPA and the Wheat Export Marketing legislation.

These amendments place the focus of both the Access test and related undertakings on meeting the accreditation requirements under S. 11 of the Wheat Export Marketing Act (2008), which is the original intention of S. 20, rather than on introducing a new level of regulation, which would be the effect of S. 20 as it is currently written.

6. Sections 27 and 28.

Under Section 27, the regulator has the power to order an external audit of an accredited exporter. Section 28 gives the regulator the power to appoint an auditor of its choice.

An external audit of an accredited exporter is potentially a costly and resource intensive activity. The subject of who should pay for an external audit ordered by the regulator is not made clear in the Bill.

It is unreasonable to expect an accredited exporter to fund an external audit ordered by the regulator.

Provision should be made, either within the Bill or within the business rules of the regulator, to make it clear that any audit ordered by Wheat Exports Australia will be paid for in full by that organisation, under a provision similar to S. 22 where;

- a) The party being audited pays the auditor and is reimbursed in full once the audit has been completed, regardless of its findings, or;**
- b) The regulator, having appointed the external auditor under S. 28, is invoiced in full directly for the work carried out by the auditor.**

7. Reporting of trade data.

The matter of reporting 'trade data' and grain stocks should not be confused with access to port terminals. The two issues are not related.

Monthly reporting of grain stocks by the ABS and the removal of the current 'commercial in confidence' classification restricting the public release of wheat export data,¹ will allow the preparation of an accurate and informative grains 'balance sheet' that will far exceed information currently available to the trade.

This new level of information will be combined by traders with daily price data from international markets and from derivatives markets such as that run by the Australian Stock Exchange, and will provide a level of transparency not previously seen in the Australian grains industry.

8. The 'Regional Monopoly' argument.

The spectre of 'regional monopolies' was created by AWB, primarily through a report it funded in 2006². This argument has been reiterated in another AWB funded report³ released in March 2008.

The rationale behind the 'regional monopoly' argument is the assumption that infrastructure owners will seek, in contravention of the Trade Practices Act, to 'exclude' parties from the use of their assets or to act in an anti-competitive manner.

The argument is wrongly based on the proposition that GrainCorp, ABB Grain and the CBH Group will use their ownership of up-country storage and port terminals to monopolise regional grain markets. In the process, it is assumed these companies would seek to extract monopoly rent.

There are a number of reasons why regional grain monopolies will not develop.

1. The aim of infrastructure owners is to encourage the use of their facilities. Up-country accumulation sites, silos and ports rely on tonnage throughput to generate revenue, from which profits and a return on funds employed is derived. Simply put, the more tonnes handled, the higher the revenues generated.

¹ A restriction placed on the release of Customs data by AWB.

² Sustaining Australia's Wheat Export Markets (2006) ITS Global for AWB.

³ Competition in the export grain supply chain (March 2008) The Allen Consulting Group, Report to AWB Limited.

Restricting the tonnage stored or handled through this infrastructure is counter-intuitive. More tonnes equals more revenue and the obverse is the case. Why would an infrastructure manager seek to reduce revenue by blocking use of its infrastructure?

2. To act as an 'effective' monopolist up-country, growers and grain traders would have to be in a situation where there are no viable storage and handling alternatives to the networks operated by bulk handling companies.

Alternatives to established silos and accumulation sites do exist, in the form of on-farm storage (silos, bunkers and silo bags) and alternative service providers such as AWB Grainflow and local grain traders. These alternative storage solutions pose a significant competitive threat to established infrastructure.

In the eastern states the average 'normal' crop size is approximately 19 Mt. Grain growers in this market collectively control over 12 million tonnes of grain storage and GrainCorp has approximately 20 million tonnes storage space.

Theoretically growers could store 2/3 of a 'normal' crop on farm or in non GrainCorp storage, leaving GrainCorp, the significant storage and handling provider on the east coast, with a 1/3 market share. This would equate to a storage network usage rate of approximately 30%.

If bulk handlers either exclude companies from their networks, or price their services too high, they are at risk of encouraging the establishment of alternative, lower cost, storage options that will bypass existing infrastructure.

Given the commercial imperatives and competitive forces within the market, monopolisation of up-country storage and handling is not a logical scenario to propose.

3. A similar principle applies to export grain port terminals. Each port terminal has an underlying cost to its owner. Each site is 'loss making' unless sufficient tonnes are unloaded to re-coup operating costs, and to make a return on capital.

The owner of a port terminal would not logically restrict access or exclude tonnage, as this would diminish the earning capacity of the infrastructure. In the case of the listed companies that own ports, GrainCorp and ABB Grain, minimising tonnage throughput, and thus foregoing revenue by excluding port users, would, in consideration of the Corporations Act, constitute a dereliction of duty to shareholders on the part of Directors.

There is also significant port terminal overcapacity. In the case of GrainCorp, its 7 port terminals collectively operate at an average shipping utilisation of 15%⁴.

The maximum usage across these ports averages 24%, ranging between the highest peak usage of 47% (Geelong – average usage 22%) and the lowest 13% (Mackay and Gladstone – average usage 9%).

Excluding tonnage throughput would only exacerbate port underutilisation.

The management of all grain exporting ports in Australia is subject to a combination of regulatory controls by State governments (specific regulation related to ports) and the Commonwealth (under the Trade Practices Act) (Refer to GPI Policy Paper #3 – following). This fact, along with the acceptance by the bulk handlers of the Government's proposal for an 'access test' in the proposed Bill, guarantees that all companies wishing to use port terminals will be able to do so.

4. It is implicit within the 'regional monopoly' argument that the bulk handling companies will leverage their storage and handling infrastructure to dominate the grain market. To do this, companies would have to effectively 'purchase' sufficient market share, possibly up to 2/3 of all grain produced in a region, to allow them to exercise 'monopoly like' influence.

⁴ This is based on 50% berth utilisation – loading at half state elevation tonne per hour, 16 hour days.

To do this, and to create a monopoly in the market, the companies would have to continually offer the highest prices for all grains to growers.

This assumes that other grain buyers would not match or exceed the prices offered by the bulk handler. It also assumes that all or most growers would sell their grain to the company seeking to monopolise the market.

None of these assumptions are rational, as they are assuming irrational behaviour in a deregulated market where rational behaviour has been evident for close to 20 years.

To undertake such an endeavour, a company would have to secure enough finance to fund grain accumulation. None of the bulk handling companies has the financial capacity to do this.

For example, GrainCorp trades approximately 16% of all grains produced on the east coast, worth approximately \$1.2 billion⁵. A total 'grain' crop of 19 million tonnes on the east coast would be valued at \$7.6 billion. A 50% market share would cost GrainCorp \$3.8 billion, a figure well beyond the financial capability of the company.

Without legislative backing, the bulk handling companies would have to undertake their 'purchasing' of a monopoly position each year. However unlikely this may be, if a monopoly like situation were to occur in one year, and if the outcome was seen by the industry as negative, the market would react the following year to balance the situation. The monopolist would be punished by the market for its aberrant behaviour.

The spectre of 'regional monopolies' is a fiction created by AWB to leverage political influence in the transition between that company losing its wheat export monopoly and competing in an open and competitive market.

AWB is trying to replace monopoly export control with regulatory control of storage, handling and ports as a way of avoiding having to compete with other companies on a commercial basis.

AWB is also implying that port terminal owners are not willing to enter into commercial arrangements to provide port services on a long term and stable basis. **This is clearly not the case, as AWB itself has a binding 20 year port and up-country storage access agreement with GrainCorp.**

If AWB is successful in convincing grower groups and politicians that shifting regulatory controls from the monopoly to grain storage and handling is 'good policy', that company will have continued its political control over the grains industry. This will be a pyrrhic victory for AWB and an outcome that will ultimately cost the industry significantly in the medium and long term.

Increasing regulation threatens to entrench inefficiency. It will have a very real impact on the ability of infrastructure owners to invest in infrastructure modernisation. Regulation may force owners to rationalise infrastructure as a way of increasing capacity usage and efficiency.

It is not unreasonable to foresee, given an increase in regulation, a future where the number of grain export terminals are reduced to 1 from 3 in Queensland, 1 from 2 in NSW, 2 from 3 in Victoria, 3 from 7 in South Australia and possibly less than the existing 4 in WA.

This rationalisation will have a significant impact on the way grain logistics are managed.

⁵ This is using an average value of \$400 / T of 'grain', including wheat, barley, sorghum, pulses and oilseeds at March 2008 price equivalents.

**Grain storage, handling and port infrastructure access.
Ensuring efficient and transparent management of infrastructure.
Policy Paper # 3**

Grains Policy Institute P/L

March 14th 2008

Endorsement.

The policy described in this paper is endorsed by;

ABB Grain, Cooperative Bulk Handling, GrainCorp Operations and the Wheat Australia joint venture.

Précis

The pricing of services for the 3 main and one supplementary up-country storage and handling networks is not set by regulation, nor are charges for the handling of grain at port terminals.

Prices charged for the use of storage and handling networks and port terminal facilities are monitored closely by the regulatory arms of the State Governments where regulatory regimes are present.

Related competition issues are examined from time to time by the Australian Competition and Consumer Commission (ACCC).

Access to up-country storage and handling networks, and port terminals, is subject to either regulatory control, access undertakings entered into between the infrastructure owner and a relevant regulator, or through transparent storage and handling agreements.

There are existing arrangements that require access to port terminal facilities to be provided to grain exporters, linked to the relevant Act in WA, ESCOSA and the ACCC in SA and the Essential Services Commission in Victoria.

In addition to these State based oversight mechanisms, the Australian Competition and Consumer Commission has a generic brief to monitor the management and performance of Australian ports, to ensure that National Competition Policy guidelines and objectives are achieved.

The three major infrastructure owners have clear accumulation and port management guidelines. They have undertakings to follow processes that allow disputes to be resolved in a binding manner.

The regulatory burden applicable to grain storage, handling and port infrastructure has been progressively lifted over time, and commercially focused management of infrastructure has been encouraged, to promote investment and drive efficiency.

The moves to reduce regulation have been in line with the 1988 Royal Commission recommendations and have been an important factor in bringing down the real cost of storage, handling and shipping over time.

Reduction of regulation has also been driven through the balancing of public benefit derived from regulation, against the direct and indirect cost of regulation.

An increased level of competition in the wheat market, as a result of the removal of the export monopoly, will continue to drive efficiency in the value chain.

New entrants to the market will place pressure on infrastructure owners to supply services at a cost that reflects international benchmarks.

The ACCC is an effective 'policeman' that will ensure management of infrastructure, particularly port terminals, is carried out in a competitive and transparent manner.

Additional oversight, in the form of infrastructure access monitoring, as a result of removal of the wheat export monopoly, is not required.

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- Appendix 1 – Extract from the Bulk Handling Act 1967 as amended – Part II, S. 19.
- Appendix 2 – CBH Group Export Accumulation Guidelines.
- Appendix 3 – Undertaking to the Australian Competition and Consumer Commission given under Section 87 B of the Trade Practices Act 1974.
- Appendix 4 - Undertaking to the Essential Services Commission given under Section 19 of the Grain Handling and Storage Act (Victoria) 1995 as amended by the Grain Handling and Storage Amendment Act 2007, January 31st 2008.
- Appendix 5 - Extract from the GrainCorp Storage & Handling Agreement 2007/08 pp 21 – 27.

Background

Bulk grain handling and storage in Australia

There are three main bulk 'up-country' networks for the accumulation and storage of grains in Australia.

- Cooperative Bulk Handling (CBH) in Western Australia.
- ABB Grain (ABB) in South Australia and Victoria.
- GrainCorp (GNC) in Victoria, NSW and Queensland.

Collectively these bulk handling companies (BHCs) operate over 650 receival and storage sites.

In addition to the up-country receival and storage sites, these companies operate 20 port terminals.

AWB GrainFlow operates 22 sites in NSW, Victoria and SA, but the capacity of these sites makes it a 'niche' player. AWB owns 50% of the infrastructure of the Port Melbourne grain terminal, which handles approximately 1/3 of all grain exports from Victoria.

Historical regulation of grain markets.

Up until the late 1980's and early 1990's, the marketing of grain was heavily regulated, with compulsory acquisition of grains and oilseeds in all states carried out by statutory marketing boards.

A Royal Commission into grain storage, handling and transport was conducted between 1986 and 1988⁶. This Commission found that greater competition within the grains industry could reduce marketing costs.

This report, and a complementary report from the Industries Assistance Commission (1988), set the stage for the removal of compulsory acquisition and changes to storage and handling provision that has occurred over the last two decades.

Compulsory acquisition of all wheat by the Australian Wheat Board was removed in 1984 when 'feed' wheat was excluded from the relevant regulations. Compulsory acquisition of milling wheat remained in place until 1989, when this onerous restriction was removed.

These regulatory reforms were followed by the removal of statutory marketing arrangements for other grains in Victoria (barley), NSW (barley, oilseeds, sorghum), Qld (barley, sorghum) and SA (barley).⁷

Prior to the removal of the compulsory acquisition of wheat in 1989, BHCs were service providers to the Australian Wheat Board and other statutory marketers, managing storage, handling and logistics for them.

Since the removal of the statutory marketing boards, the BHCs have developed significant domestic trading (all grains and oilseeds) and international trading activities (except bulk wheat).

The trading operations of the BHCs, combined with the accumulation activities of small grain exporters⁸ and local grain merchants, have contributed to the development of a robust domestic market for wheat and other grains over the last 20 years.

⁶ Royal Commission into grain storage, handling and transport, 13 October 1986–15 March 1988, J. C. McColl.

⁷ At the time of writing, barley and canola are still 'prescribed' crops in WA for export, but are not compulsorily acquired.

⁸ The members of the Australian Grain Exporters Association (AGEA).

Regulation of grain storage, handling and port infrastructure.

Pricing and price monitoring of grain infrastructure.

The pricing of services for the three main and one supplementary up-country storage and handling networks are set within the confines of;

- The WA Bulk Handling Act (1967),
- Essential Services Commission (Vic. and SA) regulations,
- The Trade Practices Act 1974; and,
- National Competition guidelines for the management of infrastructure and ports.

Prices for the storage and handling networks and port terminal facilities are monitored closely by the regulatory arms of the State Governments where applicable, and related competition issues are examined from time to time by the Australian Competition and Consumer Commission (ACCC).

The National Competition Council, the Productivity Commission and state based regulation review processes have examined the impact of pricing and related 'public benefit' against the direct and indirect cost of regulation over the past 2 decades.

The Essential Services Commission (ESC) of Victoria found in 2002⁹ that the risks associated with regulating prices would outweigh the market risks of removing regulation. This matter was raised by the ESC again in 2006¹⁰ with the same conclusions drawn.

In Western Australia the Economic Regulation Authority is currently undertaking a review of grain marketing regulation¹¹.

The regulatory trend has been to ensure that prices charged for the provision of infrastructure services are 'transparent', that is, prices are readily accessible.

As a result, the terms, conditions and prices for access to the infrastructure services of BHCs are either published or readily obtainable by any prospective customer.

Access to storage networks and ports.

Access to up-country storage and handling networks and ports is subject to either regulatory control, or access undertakings entered into between the infrastructure owner and a relevant regulator.

- In Western Australia, the obligations on CBH for providing access to 'bulk handling facilities and equipment' at ports are described in the Bulk Handling Act 1967 and related regulations.
- Additionally, CBH has a set of Export Accumulation Guidelines that are publicly available.
 - See Appendix 1– Extract from the Bulk Handling Act 1967 as amended – Part II, S. 19.
 - See Appendix 2 – CBH Group Export Accumulation Guidelines.
- In South Australia, the obligations on ABB to allow access to its ports and storage and handling network are described in an undertaking to the ACCC,¹² and through the Essential Services Commission of South Australia (ESCOSA).

⁹ ESC Victoria (2002) Review of export grain handling regulation – Final Report, pg 13.

¹⁰ ESC Victoria (June 2006) Grain handling regime review – Final report.

¹¹ Review of the Grain Marketing Act 2002, Economic Regulation Authority – Western Australia.

¹² Undertaking to the Australian Competition and Consumer Commission given under Section 87 B (Trade Practices Act 1974), September 20th 2004.

- See Appendix 3 – Undertaking to the Australian Competition and Consumer Commission given under Section 87 B of the Trade Practices Act 1974.
- In Victoria, GrainCorp has an undertaking¹³ with the Essential Services Commission of Victoria, relating to the management of its port terminals at Geelong and Portland, to publish prices, terms and conditions of use, to provide non-discriminatory access and a commitment to a binding dispute resolution process.
- The management of port terminal operations is also laid out in the GrainCorp Storage and Handling Agreement 2007/2008.
 - See Appendix 4 - Undertaking to the Essential Services Commission given under Section 19 of the Grain Handling and Storage Act (Victoria) 1995 as amended by the Grain Handling and Storage Amendment Act 2007, January 31st 2008.
 - See Appendix 5 - Extract from the GrainCorp Storage and Handling Agreement 2007/08 pp 21 – 27.¹⁴
- In NSW and Queensland, the up-country storage network and the port terminals owned by GrainCorp are not subject to state regulation, but are subject to Commonwealth regulations, such as the Trade Practices Act 1974, and relevant National Competition Policy guidelines.

Commercial Drivers of Access.

Up-country grain storage and handling facilities, and grain ports, are currently managed and regulated to ensure 'open access'. Owners of infrastructure currently service multiple clients for the export of barley, sorghum, oilseeds, pulses and other grains.

Opponents of the removal of the monopoly have expressed concerns that it will be replaced with 'three regional monopolies' based around the storage and handling networks, with the owners of these networks 'excluding' competition from exporting through their ports.

These concerns are unfounded and are based on misinformation or lack of knowledge of the way in which the current grain export task is managed.

Open access to grain handling and export infrastructure will not change when the wheat export monopoly is removed.

Bulk handling companies rely on maximising tonnage throughput to generate revenue. Restricting access to storage and handling networks and port terminals would not only be anti-competitive and possibly illegal, but would not make commercial sense.

The fact that bulk handling companies need to encourage use of their infrastructure militates against monopolistic behaviour that would 'lock out' new wheat exporters.

A second factor that militates against the creation of 'regional monopolies', is the fact that bulk handling companies will not have the financial capability to 'dominate' a market in any one region. So if a bulk handling company cannot purchase all wheat available in a port zone and then acts to restrict the use of its infrastructure, it is denying itself valuable revenue from storage, handling and out loading.

This sort of behaviour also invites prosecution under the Trade Practices Act for anti-competitive behaviour. The heavy fines that apply, and the foregone revenue, are major disincentives to monopolistic behaviour.

¹³ Undertaking to the Essential Services Commission given under Section 19 of the Grain Handling and Storage Act (Victoria) 1995 as amended by the Grain Handling and Storage Amendment Act 2007, January 31st 2008.

¹⁴ The full storage and handling agreement can be downloaded from http://www.graincorp.com.au/bins/doc.asp?rdc_id=15554

Industry Perceptions of access to infrastructure.

There is an incorrect perception within some sections of the grains industry that bulk handling networks and ports are managed in a 'non transparent' or 'monopolistic' manner, in a way that unfairly advantages the owner of the infrastructure.

The accumulation of grain for export is a complex logistical process, requiring the coordination of shipping, with transportation of grain from up-country receipt and storage sites, and grain accumulation at port. Many elements of this complex process can falter, in what is a time critical logistical balancing act.

Port management guidelines, including required notice periods for ordering the use of terminal infrastructure, are available to all consumers of infrastructure services. These guidelines include methodologies for resolving disputes. Allegations of inappropriate management of port facilities by BHCs largely stem from a breakdown in logistical coordination on the part of a service user.

Monitoring up-country storage and port infrastructure access.

The three major infrastructure owners have clear accumulation and port management guidelines or undertakings with processes that allow disputes to be resolved in a binding manner.

The regulatory and management processes outlined in earlier sections of this paper have evolved from a process of review and evaluation undertaken since the 1988 Royal Commission into grain storage, handling and transport.

The regulatory burden applicable to grain storage, handling and port infrastructure has been progressively lifted over time, and commercially focused management of infrastructure has been encouraged, to promote investment and drive efficiency.

The moves to reduce regulation have been in line with the 1988 Royal Commission recommendations and have been an important factor in bringing down the real cost of storage, handling and shipping over time.

An increased level of competition in the wheat market, as a result of the removal of the export monopoly, will continue to drive efficiency in the value chain.

New entrants to the market will place pressure on infrastructure owners to supply services at a cost that reflects international benchmarks.

Ensuring competitive behaviour.

There are existing arrangements that require access to port terminal facilities to be provided to all grain exporters, linked to the relevant Act in WA, ESCOSA and the ACCC in SA and the Essential Services Commission in Victoria.

In addition to the State based oversight mechanisms, the Australian Competition and Consumer Commission plays a role in ensuring that grain infrastructure is managed responsibly and that anti competitive or monopoly like behaviour doesn't occur. The ACCC plays an active role monitoring the grain handling and shipping sector to ensure that National Competition Policy guidelines and objectives are achieved.

The ACCC is also charged with the responsibility of monitoring the behaviour of businesses within the umbrella of the Trade Practices Act 1974.

The following areas apply to the provision of storage, handling and port terminal services.

- *Predatory pricing*¹⁵ which is unlawful under s. 46(1) and s. 46(1AA) of the Trade Practices Act. Section 46(1) prohibits businesses that have substantial market power

¹⁵ ACCC <http://www.accc.gov.au/content/index.phtml/itemId/322986/fromItemId/3669>

from taking advantage of that power for the purpose of eliminating or substantially damaging a competitor, preventing the entry of a person into a market or deterring or preventing a person from engaging in competitive conduct in a market.

- *Creation of cartels*, s. 75 of the Trade Practices Act.
- Part IV of the Trade Practices Act which covers *anti-competitive practices* that limit or stop competition¹⁶, including;
 - *Exclusive dealing* which occurs when one person trading with another imposes some restrictions on the other's freedom to choose with whom, in what, or where they deal.
 - *Full line forcing*¹⁷ which involves a supplier refusing to supply goods or a service unless the intending purchaser agrees not to:
 - buy goods of a particular kind or description from a competitor
 - re-supply goods of a particular kind or description acquired from a competitor
 - re-supply goods of a particular kind acquired from the company to a particular place or classes of places.
 - *Third line forcing* which involves the supply of goods or services on condition that the purchaser buys goods or services from a particular third party, or a refusal to supply because the purchaser will not agree to that condition.
 - *Price fixing*. For price fixing agreements to be considered illegal:
 - there must be a 'contract, arrangement or understanding' or a proposed 'contract, arrangement or understanding' (the agreement)
 - two or more of the parties to the agreement must be competitors
 - the agreement must have the purpose or effect of fixing, controlling or maintaining the price of goods or services, or be likely to do so
 - what is fixed must be the price for, or a discount, allowance, rebate or credit in relation to goods or services.
- Sections 51 AA, 51 AB and 51 AC of the Trade Practices Act relating to *unconscionable conduct*¹⁸ also apply.

The ACCC also has mechanisms where consumers of services (such as port terminals) can seek to have investigated instances of the misuse of market power or related transgressions of the Trade Practices Act.

In this context, the ACCC is an effective 'policeman' that will ensure management of infrastructure, particularly port terminals, is carried out in a competitive and transparent manner.

Additional oversight, in the form of infrastructure access monitoring, as a result of removal of the wheat export monopoly, is not required.

¹⁶ ACCC <http://www.accc.gov.au/content/index.phtml/itemId/259608/fromItemId/3669>

¹⁷ For a full line forcing arrangement to contravene the Trade Practices Act it must have the effect of substantially lessening competition in the relevant market.

¹⁸ <http://www.accc.gov.au/content/index.phtml/itemId/303748/fromItemId/3669>

Studies into the wheat export monopoly.

A range of studies examining the costs and benefits of the wheat export monopoly have been undertaken over the last 8 years.

Pro monopoly.

The following list of reports were funded by AWB and support the monopoly.

- Econtech (2004). Single Desk Marketing of Wheat – Three Price Premium Models: Report to AWB I.
- Boston Consulting Group (2004). AWB International. Maximising Returns to Growers Supplying the Single Desk.
- Hoffman T & Matthews N (2004). Single Desk and the Grain Supply Chain – A Study of Power Relationships. Unpublished report to AWB I.
- Gans J (2000) A Submission to 2000 NCP review on behalf of AWB I.
- Gans J and Hirschberg J (2004). An Evaluation of the single Desk for Export of Australian Wheat: A Report to AWB I.
- Oxley A (2004) Single Desk Summit Presentation and Paper.
- ITS Global (2006) Sustaining Australia's wheat export markets.

Each of these reports demonstrates 'benefits' from the export monopoly and the continued management of that monopoly by AWB.

Anti monopoly.

Reports that have been independently funded have been critical of the monopoly, specifically highlighting the costs of the monopoly to the industry as a whole and growers.

- Joint Industry Submission to the 2000 National Competition Policy Review. (2000) Centre for International Economics.
- National Competition Policy Review of the Wheat Marketing Act 1989 (2000) National Competition Commission.
- Review of Structural Issues in the Australian Grain Market (2002) Kronos Corporate.
- Grains Industry Review (2002) Accenture.
- What the World Wants from Australian Wheat Growers (2004) Food South Australia.
- Marketing Australian Wheat (2006) ACIL Tasman.
- Findings from Wheat Export Authority Growers Reports. 2001 – 2007.

A summary of the findings of these reports follows.

Joint Industry Submission to the 2000 National Competition Policy Review. (2000) Centre for International Economics.

Key findings.

- Prices differ between markets due to local demand issues and not market power.
- **The monopoly increases marketing costs by between AUD \$5 / T (\$65 million) and \$15 / T (\$195 million) PA¹⁹.**
- The monopoly restricts grower marketing choice
- Individual levels of price risk are higher across a national pool, as price risk is shared and individual growers (and other pool participants) are not able to individually manage price risk.
- The national pool prevents the emergence of a derivatives market. (This is a much more effective price risk methodology than pooling. Development of SAFEX in South Africa post deregulation there has massively increased individual growers' ability to manage price risk).
- Lack of a derivatives market reduces investment incentives.
- Models for indicating economic benefit from the monopoly continue to be flawed.
- The monopoly is poor at differentiating products, leading to commoditisation of Australian wheat and a reduction in overall market earnings.

National Competition Policy Review of the Wheat Marketing Act 1989 (2000) National Competition Commission.

Key Findings.

- The objectives of the Wheat Marketing Act were not clear.
- The monopoly allowed AWB to take a dominant position in the domestic grain market due to the relative proportion of the export task compared to the domestic wheat market.
- That this dominant position impacted on investment, innovation, development of marketing services and the efficient management of grain storage, handling and transportation, as well as plant breeding and seed sales.
- The service agreement between the holder of the monopoly AWB International and the service provider, AWB limited was in need of clarification.
- The monopoly was not consistent with Australia's overall trade policy settings.
- The legislation didn't clearly separate the commercial and regulatory functions of the monopoly and the legislation gave the monopolist more control over exports than was intended.
- The Review recommended the introduction of fixed fee annual licences for the export of wheat in bulk.
 - The recipients of such licences were to meet criteria including integrity, competency, financial standing and a commitment to providing required information. Such licences would include appropriate penalties for non compliance.
- The Review found²⁰;
 - "...no clear, credible and unambiguous evidence that the current arrangements for the marketing of export wheat are of net benefit to the Australian community."
 - "Despite some claims that substantial premiums are being earned, most of the evidence the Committee was able to obtain supported the view that, averaged across all markets, such price premiums were likely to be small."

¹⁹ Based on 13 Mt exports

²⁰ Executive Summary, pp 6 - 9.

- "...the Committee received convincing evidence that the current restrictions on competition have had an inhibiting effect on innovation in marketing, the identification of new marketing opportunities including small, niche, or specialised export markets, and ongoing development of existing markets for Australian wheat."
- "...considerable evidence was provided that the 'single desk' has had an anti-competitive effect on the grain supply chain, constraining vertical integration and impeding the realisation of least cost grain paths and potential cost savings in grain receival, storage, handling and transport."
- "The Committee was also provided with compelling evidence from overseas that open competition in grain handling generated significantly greater cost savings than coordination by a dominant marketing organisation."
- "... the Committee came to the view that the introduction of more competition into export wheat marketing in the future would more likely deliver net benefits to growers and to the wider community than continuation of the current arrangements without modification."
- "The Committee...received convincing evidence that the current restrictions on competition have had an inhibiting effect on further market penetration and growth in new markets for wheat."
- "Although there is uncertainty about the magnitude of single desk price premiums, the inhibiting effect on market development, and supply chain cost savings, and consequently on whether there are or are not net benefits to Australian wheat-growers from the WMA, on balance the Committee has come to the view that the introduction of more competition into export wheat marketing in the future would deliver greater net benefits to growers and to the wider community than a continuation of the current arrangements."

Review of Structural Issues in the Australian Grain Market (2002) Kronos Corporate.

Key findings.

- The preceding 10 to 15 years had seen the deregulation of domestic markets, removal of legislation restraining access and price setting for storage and handling, new storage facilities built and relevant changes in exporting restrictions.
- Previously regionally focused companies increased their focus to national, bringing greater choice to growers and greater competition.
- Export monopoly powers had passed from Government to public companies and they had control of 72% of Australian grain exports.
- The new holders of export monopolies had a legal obligation to maximise shareholders' returns, not growers' returns.
- These companies were broadening their business based into provision of services and thus increasing the chances of conflicts of interest arising.
- Services were non contestable and thus not transparent, leading to the conclusion that growers' returns were not being maximised.
- There was inadequate oversight of the wheat export monopoly by the WEA.
- The managers of export monopolies were making profits at levels greater than normal market rates (they were extracting monopoly rents). This was linked to lack of contestability for provision of services and lack of transparency.
- State Government reviews of barley export monopolies had been unable to demonstrate benefits from those monopolies.
- The management of the monopoly by AWB Limited placed pool participants \$9.33 / T (\$121 million²¹) worse off than when the pool was managed by the statutory Australian Wheat Board – this was evidence of monopoly rent extraction.

²¹ Based on 13 Mt exports.

Grains Industry Review (2002) Accenture.

Key findings.

- The cost of marketing wheat carried by growers was high as the monopoly imposed barriers to competition and efficiency in the supply chain, growers' services and the operation of the single desk.
- Opportunities for others to provide growers with choice was constrained.
- The structure of the monopoly and the relationship between AWB International and AWB Limited raised significant conflicts of interest.
- Provision for more transparency was required.
- Complementary sales channels were needed to provide opportunities for increasing revenue and decreasing risk associated with a 'single marketing' strategy.
- Governance standards needed to improve.
- There was no clarity in the Services contract between AWB I and AWB L, costs could vary between \$40 and \$100 million PA and the out performance incentive was large enough to influence AWB's financial management at up to \$50 million.
- Accenture valued the benefits from removing / modifying the monopoly at;
 - Supply chain efficiency - \$61 million.
 - Contestable and transparent services - \$44 million.
 - Competitive services to growers - \$45 million.
 - Total gains \$150 million PA.

What the World Wants from Australian Wheat Growers (2004) Food South Australia.

Key findings.

- Australian wheat is highly valued and earns a premium on the basis of its superior milling characteristics.
- Australian wheat is blended in most markets to increase the quality profile of wheat purchased from other countries.
- Competitors are rapidly developing products of a similar quality profile to Australian wheat. This is eroding returns.
- Australian wheat is not suited to sponge and dough baking processes, increasingly popular methods of baking in the growing Middle East and Asian markets.
- The monopoly has created an inflexible 'volume' focused supply chain, while the world market is becomingly increasingly differentiated. This means that the Australian supply chain is evolving in the reverse to the way the market is.

Marketing Australian Wheat (2006) ACIL Tasman.

Key findings.

- Net returns to growers can be increased by at least \$10 / T by removing the monopoly, or by \$140 million PA.²²
- Growers' interests will be better protected in a more competitive market; competition will drive down marketing costs.
- Increasing the independence of the regulator will not increase growers' net returns.
- The extraction by AWB of monopoly rent is estimated to cost \$80 to \$100 million PA.

²² Based on 13 Mt exports

- The reduction in market capital value of AWB Limited has led to an effective 'loss' of \$620 million raised through the WIF.

Findings from Wheat Export Authority Growers Reports.

2001.

- The 1999 AWB service agreement did not encourage AWB Ltd to deliver pool management services efficiently and therefore minimise costs (pg 2).
- AWB achieved prices at or above international benchmark grades (refer to Appendix 2) (pg 2).
- The WEA made it clear that
"It is not the role of the WEA to tell AWB(I) how to run its business. Rather, the WEA's task is to identify and report on issues or areas where it considers that:
 - *AWB(I) is operating efficiently or effectively in the interest of growers, or is working towards this goal; and/or*
 - *there is room for improvement by AWB(I) so as to maximise benefits for growers.* (pg 3).

2002.

- The WEA found that AWB had achieved prices between \$14 and \$32 / T higher than equivalent benchmark grades.
 - This validates the argument put in Appendix 2 that Australian wheat has a natural quality premium of \$25 / T that is earned independently of the marketing method.
- The WEA made no quantitative measurement of the impact of the monopoly on supply chain management and noted that concerns over management of the supply chain had been raised and that AWB had not provided any relevant data.
- The report states that the WEA "...continues to offer a range of benefits to growers" without stating what those benefits are or quantifying them.

2003.

- AWB claimed a total 'out performance' over its own benchmarks of \$328.6 million for the 01/02 pool. (pg 9).
 - It has to be remembered that these benchmarks are set by AWB internally and performance against them only reflects AWB management against internal, not external measurements.
 - AWB's 'out performance' rewards are based on the benchmarks it sets for itself.
- The WEA reported a reduction in bulk handling and storage costs of \$0.48 / T, an increase in rail costs of \$0.40 / T and a decrease in port costs of \$0.12 / T. (pg 13)
- Analysis of the shift from the old AWB 'cost plus' remuneration model to an 'incentive' based model, indicated an increase in remuneration of up to \$13 million. (pg 21).

2004.

- The report clearly shows that 'premiums' earned against international grades had dropped to between \$1 and \$2.50 / T.
- At the same time the performance incentive calculated on the AWB defined benchmark delivered an outperformance result of \$31.13 / T
- Outperformance payments received by AWB against its own benchmarks were \$28.3 million in 2001/02 (\$0.69 / T) and \$19.4 million in 2002/03 (\$0.23 / T). (pg 17)

2005.

- AWB claimed an outperformance against its own benchmark of \$16.36 / T and a gain of US\$6.60 in sale proceeds against international benchmark grades. (pg 4).
 - This is a significantly lower margin that would be expected between ASW and USHRW.
- Grower returns as a percentage of pool equity dropped to 84.2% from 86.3% the previous pool.

2006.

- Supply chain costs increased by 3% (pg 3).
- AWB was able to achieve a premium of \$0.80 / T for Australian Hard wheat and \$6.16 / T for feed wheat.
- AWB outperformed its own benchmark by \$18.50 despite the low 'premiums' achieved and increased supply chain costs.
- The WEA investigated the AWB services agreement and found a previously undisclosed break fee. The cost of this fee was "...undefined, uncapped and potentially significant" and had "...the potential to adversely affect grower returns if the agreement is terminated or not renewed in similar terms". (pg 3).
- Remuneration of AWB per tonne increased from 2% of total pool equity in 2003/04 to 3.3% in 2004/05.
- On supply chain management and the ability of the monopoly to exercise market power to reduce supply chain costs, the WEA found, *"...The WEA compared the cost of receiving, segregating and storing grain for 12 months and out-turning to rail (for country bulk storage sites). The analysis shows AWB(I) pays more per tonne to AWB Grainflow and GrainCorp than other storage and handling providers. Of note is that AWB(I) pays the same as any non-AWB(I) traders to GrainCorp, more than the non-AWB(I) traders to CBH Ltd and less than non-AWB(I) traders to ABB Grain."*
- Based on this analysis the WEA concludes that AWB(I) appears unable to use its market power to significantly influence country storage and handling costs.
- AWB claimed an outperformance against its own benchmark of \$17.95 / T and a gain of AUD \$14.65 in sale proceeds against international benchmark grades. (pg 8).
- AWB lost \$20.367 million on demurrage during the 2003-04 pool and \$14.076 million during the 2004-05 pool. (pg 12).
- The WEA analysis also found that non AWB I exporters gain better prices for container and bag exports than AWB I pool sales. (pg 22).

2006 Addendum.

- Reduced pool size would increase the per tonne cost of monopoly management, with the majority of that cost carried by pool participants in WA and SA. (pg 7).
- The WEA notes that no increase in the 2005-06 national pool EPR occurred between July and October 2006, when an increase of \$13 / T should have been expected. (pg 8).
- The report notes a demurrage loss of \$10.33 / T.

2007.

- The 2007 services agreement was negotiated on the explicit assumption that the 2007/08 national pool would be the final national pool. (pg 3).
- AWBL's hedging activities appeared to be speculative and put an unacceptable level of risk on the 2005/06 and 2006/07 National Pools. (pg 3)
- AWBL's objective may have been more focused on earning additional fees through out performing the WIB, rather than managing the risks for Pool participants and operating in growers' best interests. (pg 3).
- AWB claim a cost of US \$20.4 million to the 2005/06 pool from futures losses. (pg 13).
- AWB made a loss of \$14.498 million on ship chartering.

The wheat monopoly – why it needs to be reformed.

Governance - Weaknesses and failings of the wheat monopoly.

- From the outset of the privatisation of the Australian Wheat Board and the formation of AWB Ltd, there were concerned efforts to ensure that both the Wheat Marketing Act and its 'regulation' were minimised and that AWB had maximum flexibility in its management.
- The structure was developed primarily between members of the Grains Council of Australia and the Australian Wheat Board.
- Weaknesses in the oversight authority, the Wheat Export Authority (WEA), were the subject of much criticism during the privatisation of the old Wheat Board, with The Hon. Wilson Tuckey MP being especially critical in relevant speeches.
- The WEA had no powers to compel AWB to act in any way relevant to the management of the monopoly. AWB effectively ran an unregulated monopoly.
- The primary role of the WEA was to report retrospectively on the performance of the AWB national pool, a job that was severely hampered by;
 - The limited powers of WEA to compel AWB to provide information it didn't want to provide
 - The ability of AWB to classify any information as 'commercial in confidence', thus restricting the WEA's ability to publicly report. This compelled the WEA to heavily sanitise any of its public reports
- A detailed annual report was provided to the Minister on the management of the monopoly and little of that information was able to be published.
- The weakness of the WEA was the subject of severe and sustained criticism during Senate Estimates hearings, particularly by the Labor Party and Liberal Senator Bill Heffernan, who famously referred to the WEA as a 'bed of pansies'.
- Amendments to the Wheat Marketing Act in 2007 increased the powers of the WEA to seek information from AWB about its management of the monopoly when it became the Wheat Export Commission (EWC)
- These powers were backed up with an amendment that allowed the Minister to direct the EWC to investigate certain activities of AWB.
- The Grains Council of Australia (GCA) was paid up to \$220,000 by AWB each year. At the same time, GCA had a special consultation role with the WEA and participated in confidential working group discussions between AWB and the WEA. In this role, GCA was to act as an 'independent' third party.
 - GCA played a key role in limiting the public reporting of the management of the monopoly by working with AWB to ensure that oversight of its management was minimised.
- GCA and AWB lobbied the then Agriculture Minister Truss to 'water down' the terms of reference of the 2004 Review, diverting the review from its original purpose – review of the Act – to a review of the regulatory oversight of the Act and the implementation of some provisions therein.
- During the 2004 Review of the Wheat Marketing Act, GCA worked closely with AWB to ensure that submissions to the Review were coordinated, with the aim of ensuring a 'status quo' outcome from the Review.

- GCA participated with AWB in modifying draft recommendations of the Review panel to ensure 'acceptable outcomes'.
- The WEA had the role of assessing export consents for bag, container and bulk exports, but AWB possessed a 'veto power' that allowed it to override any decisions of the regulator.
- The 'veto' (S. 57. (3b)) over applications for bulk export of wheat held by AWB ensured that no competition for the monopoly occurred.
 - Operationally the WEA was highly critical of AWB and its exercise of the veto, as it was imposed on a blanket basis, where AWB effectively 'cut and pasted' its responses to WEA on bulk consent applications.
 - As this material is still commercial in confidence, specific examples cannot be cited.

Removing the monopoly – The moral imperative.

- At a basic level, the monopoly restricts the rights of wheat growers and grain traders to trade with whomever they wish. Such a restriction doesn't apply in other sectors of agriculture or any other sector of the economy.
- While the focus is on restricting growers' choice, the greater restriction actually applies to grain traders who buy wheat from growers.
 - The removal of compulsory acquisition of milling wheat by the Wheat Board in 1989 created a deregulated domestic market, but left a regulated export market. This means, under the monopoly, that any wheat excess to domestic market demand is 'required' to be sold to AWB Ltd. (a publicly listed company) so it can be exported under their control. The alternative for the owners of wheat is to store it and hope for some domestic demand to appear.
 - This regulatory restraint of trade massively reduces commercial freedom to trade, is strongly anticompetitive and is totally counter to the National Competition Principles.
- Commissioner Cole was clear on the matter of the obligations placed upon the manager of a monopoly.

A government grant, by legislation, of a monopoly power confers on the recipient a great privilege. It carries with it a commensurate obligation. That obligation is to conduct itself in accordance with high ethical standards. The reason such an obligation is imposed is because, by law, persons are denied choice with whom they may deal.²³
- Both the Volcker (2005) and the Cole (2006) inquiries into the United Nations Oil for Food program referred to the attitude of AWB management as being 'whatever it takes'. AWB was effectively an unregulated monopoly, and the company developed an attitude that it was a law unto itself.
- The culture within the company led it to feel justified about breaking UN sanctions, using the excuse that its mission was to 'maximise grower returns'.
 - The rationale behind paying bribes to the Iraqi regime through the Iraqi Grains Board was that they earned the pool higher net returns than equivalent sales on the international market, up to an estimated \$1 billion between 1999 and 2004. (See Appendix 1 of this paper).
- Removal of the monopoly eliminates the risks associated with behaviour of the kind demonstrated by AWB. A competitive market will not facilitate the sort of behaviour that led to the Wheat for Weapons scandal.

²³ Report of the inquiry into certain Australian companies in relation to the Un Oil-For-Food Program, Vol. 1, Summary, recommendations and background. pp 12.

- Removal of the monopoly is an appropriate response to the recommendations made by Commissioner Cole, who cited the culture of the monopolist as being a primary driver of the corrupt behaviour he uncovered.

The conduct of AWB and its officers was due to a failure in corporate culture. The question posed within AWB was: What must be done to maintain sales with Iraq?

The answer given was: Do whatever was necessary to retain the trade. Pay the money required by Iraq. It will cost AWB nothing because the extra costs will be added into the wheat price and recovered from the UN escrow account. But hide the making of those payments for they are in breach of sanctions.²⁴

- The new accreditation scheme raises the level of transparency and accountability and reduces the chances of contravening sanctions. The new scheme will ensure that any behaviour like AWB's can be more effectively prosecuted under the Commonwealth Criminal Code, again responding to recommendations by Commissioner Cole.
- The new accreditation scheme delivers on the following Cole Recommendations.
 - #1 – clarification of information provided under the Customs (Prohibited Exports) Regulations.
 - #2 – ensuring that exporters of wheat comply with the United Nations Act and the relevant sections of the Commonwealth Criminal Code related to UN sanctions.
 - #3 – the new wheat export regulator has greater powers to ensure legal compliance when compared to the WEA or the EWC.
 - #5 – the Commissioner recommended that any regulation of wheat exports ensure that proper standards of commercial conduct are adhered to and the new accreditation delivers higher probity standards.

Policy reform – Normalising the wheat market.

- The wheat monopoly was introduced in 1939 as a war time food supply management measure. The measures introduced included the compulsory acquisition of all wheat grown in Australia by the Australian Wheat Board.
- Labor commenced economic reform of the wheat industry in 1984 when it removed feed wheat from compulsory acquisition, leaving all wheat used for domestic milling and all wheat exported under the control of the Australian Wheat Board.
- Labor further reformed the industry in 1989 when all compulsory acquisition was removed. This effectively created a deregulated domestic market. AWB retained its monopoly on wheat exports through its general exemption from the prohibition on the export of wheat and its power of veto over export consents granted by the Wheat Export Authority.
- Removal of compulsory acquisition coincided with the introduction of the Wheat Industry Fund (WIF) and a policy to remove the Government underwriting of the Wheat Board's borrowings.
- These reforms were consistent with;
 - Australia's obligations under GATT and WTO treaties and agreements.
 - National Competition Principles.
 - Recommendations from the Royal Commission into Grain Storage and Handling 1996 – 1998.
 - A trend toward reducing regulation and encouraging competition in the Australian economy.

²⁴ Report of the inquiry into certain Australian companies in relation to the Un Oil-For-Food Program, Vol. 1, Summary, recommendations and background. pp 12.

- Other monopolies and statutory marketing models have been progressively removed over the past two decades as part of commercial normalisation of grain markets.
 - Each time reform has been contemplated, opponents have predicted 'disastrous consequences' as a result of removal of regulation.
- There is no evidence of negative impacts on the grain industry from the removal of regulation and none of the predictions of disaster have been correct over the last two decades.
 - The wheat industry has actually grown by more than 50% since the removal of compulsory acquisition.
 - Importantly, the beef feedlot sector and other intensive livestock industries have grown significantly since deregulation.
 - Prior to deregulation, the domestic price of feed wheat was set above the price of export milling wheat. Lower feed wheat prices led to an increase in demand for feed wheat and facilitated the growth of domestic consumption. (Appendix 2).
- Deregulation of the barley export monopoly in South Australia was preceded with predictions of chaos in the market, unsold barley and other problems.
 - The actual outcomes were an increase in the number of buyers operating in the SA barley market, which represented an increase in competition for the purchase of grain from growers and thus more grower choice.
 - In areas where there is a 'freight advantage' (proximity to port) those growers were able to capture that advantage, adding up to \$30 / T to their net returns. This advantage was previously socialised away through the monopoly pool.

Economics – The evidence against the monopoly.

- The main flaw in the 'monopoly benefits' argument is that the value of Australian wheat is influenced by the way it's marketed. It isn't.
- The value of Australian wheat is set by global supply and demand and is valued by the benchmark grades on which the international trade is based.
- Appendix 2 (of this paper) clearly shows that the value of the benchmark Australian grade (ASW) has, since 1989, closely tracked the international benchmark grade (USHRW).
 - The variation between ASW and USHRW is attributable to the milling quality of Australian wheat (higher flour extraction rate per tonne of wheat and higher protein) which confers a higher value and price, but a price that is relative to the international benchmark grade.
 - **The quality premium above the USHRW benchmark grade is historically approximately US \$20 / T (AUD \$25 / T), or \$325 million²⁵.**
- Of note is the fact that prior to 1989 when all wheat was compulsorily acquired by the Wheat Board, there was no premium earned by the monopoly, and the ASW price was closely tied to the USHRW price.
- This finding totally invalidates the argument that the monopoly earns a premium.
- Under the Government's changes, the inherent milling qualities of Australian wheat don't change.
- Thus the price differential between the benchmark Australian and international grades will remain approximately the same.

²⁵ Based on 13 Mt exports

- Multiple exporters will be able to extract greater leverage from the differentiation of Australian wheat from 'commodity' grades, rather than sell Australian wheat as a source of multiple origin wheat, which was clearly the strategy of AWB.

This point is validated by the fact that in announcing its 2006/07 profit figures, AWB earned more from its international commodity trading activities than it did from its Australian wheat trading business.

Cost of Managing the Pool

In 2004/05 dollar terms, the *total cost* of export pool management charges by the Australian Wheat Board from 1994 to 2000 was \$53 million PA.²⁶

This indicates that the cost of pool management has effectively doubled from \$53 million PA from 2000 to \$100.9 million in 2004/05 (See Appendix 3).

Table 1 – AWB Gross Earnings from Pool Management²⁷

	Average	2002/03	2003/04	2004/05
Pool (Mt)	13.0	4.5	19.9	14.6
Pool management earnings (\$m)				
Base Fee	58.2	47.8	61.8	65.0
Out Performance	32.9	29.3	33.5	35.9
Total Pool Management	91.1	77.1	95.3	100.9
Service to Pool earnings (\$m)				
Chartering	30.8	9.2	48.0	35.2
Geneva	10.0	6.4	14.6	9.0
Grain Acquisition & Trading (\$m)	40.8	15.6	62.6	44.2
Harvest Loans	16.6	12.7	20.4	16.6
Risk Assist / Basis Pools	8.6	12.9	3.0	10.0
Treasury Management	8.3	10.5	6.5	8.0
Finance and Management (\$m)	33.6	36.1	30.0	34.6
Total Pool Earnings (\$m)	165.5	128.8	187.9	179.7
Per Tonne	\$12.70	\$28.57	\$9.41	\$12.30

If the additional cost of grain acquisition, trading and finance is added (app. \$70 million), the cost of managing the pool has more than tripled.

Some other costs carried by the national pool include;

- The AWB strategy Shaping the Future – approximate cost \$10 million.
- AWB I carries supply chain risk, where in 2003/04 AWB Ltd generated \$48 million²⁸ (\$2.50/T) from chartering, while the pool lost \$20.3 million in demurrage.²⁹

²⁶ WEA 2004 Growers Report, p 19 - \$48.7M 2001/02 dollars, adjusted by CPI to 2004/05 dollars.

²⁷ AWB Public Announcement, 2004 – 74, 24 November 2004 and AWB Public Announcement 2004 (74) and 2005 (173).

²⁸ AWB Public Announcement 2004 – 74, 24 November 2004 p6.

²⁹ Growers Report (2004) WEA, pg 9.

The role of Iraq in supporting the national pool.

- Appendix 1 contains an analysis of the contribution of the 'Iraq premium' to the national pool.
- The analysis finds that the inflated returns earned by AWB over 5 years of the Oil for Food program (199/00 – 2003/04) were \$1 028 000 000.
- This averages at an additional \$205 million in sales revenue PA.
- AWB claims that the monopoly 'benefit' is \$13 / T or \$169 million (based on 13 Mt annual exports).
- Since the finalisation of the Oil for Food program, the 'monopoly premium' earned by AWB shrank to as low as \$0.80 / T.³⁰
- On the basis of this analysis it is apparent that AWB relied on the inflated sales revenue from Iraq to underpin national pool returns and in the process to earn significant 'outperformance' bonuses from exceeding its own performance benchmarks.
- It is appropriate to postulate that without the additional sales revenue generated by the sale to Iraq through the Oil for Food program, the performance of the national pool would have significantly underperformed and as such, AWB would not have derived the performance linked revenue it did over the years 1999 – 2004.

The Monopoly balance sheet.

Claimed monopoly benefit	
AWB ³¹	\$169 million (\$13 / T)
WEA ³²	\$32.5 million (\$2.50 / T)
Claimed costs of the monopoly	
Marketing ³³	\$152 million (\$11.69 / T)
Supply chain ³⁴	\$140 million (\$10.77 / T)
Total cost	\$292 million PA (\$22.46 / T)

Note – all calculations based on a 13 Mt export pool.

³⁰ Growers Report (2006) WEA

³¹ Your Single Desk (2004) AWB International.

³² Growers Report (2004) WEA.

³³ This figure is an average of the modelled marketing losses of summarised in this document.

³⁴ This figure is an average of the modelled supply chain inefficiencies summarised in this document.

Summary.

Australian wheat earns a premium of approximately AUD \$25/T over international benchmark grades due to its higher flour extraction rates and other quality characteristics, or a natural premium of \$325 million PA above a comparable international benchmark (USHRW). (Appendix 2 Figure 2).

This 'natural premium' is not derived from the marketing 'method' (it is not derived from the monopoly) and as such is not included as a cost or a benefit of the monopoly.

The evidence presented by AWB suggests there is a net gain from having a single seller of Australian wheat into the world market of \$13 / T, excluding factors that can be attributed to the natural premium mentioned above.

This contention is not supported by the WEA, which valued the 'premium' extracted by the monopoly at up to \$2.50 / T, without considering the cost to industry of the anti-competitive nature of the monopoly.

The organisations that have studied the monopoly suggest that there is a net cost to the industry of \$292 million PA from the anti-competitive nature of the monopoly.

The 'loss' to the industry using the modelled figures of monopoly benefits against anti-competitive costs is between \$9.46 / T (AWB \$13 benefit) and \$19.96 / T (WEA \$2.50 benefit).

Using 13 million T as the basis for an annual average of wheat exports, this represents a net loss to industry of between \$123 million and \$259 million PA.

Appendix 1.**Table 1 - Australian wheat export to Iraq in context.**

	99-2000	2000-01	2001-02	2002-03	2003-04	Total
Total wheat exports ^a	17,597,479	15,963,670	16,020,854	8,926,300	17,573,237	76,081,540
Exports to Iraq	2,516,776	2,500,893	2,019,337	747,198	1,597,991	9,382,195
Iraq percent of total	14.30%	15.67%	12.60%	8.37%	9.09%	12.33%
Value of all exports (\$ _A m) ^b	3,481	4,197	4,612	3,109	3,475	18,874
Overall average price (\$A/t)	198	263	288	348	198	248

Notes

a Financial year 1 October to 30 September.

b Financial year 1 July to 30 June.

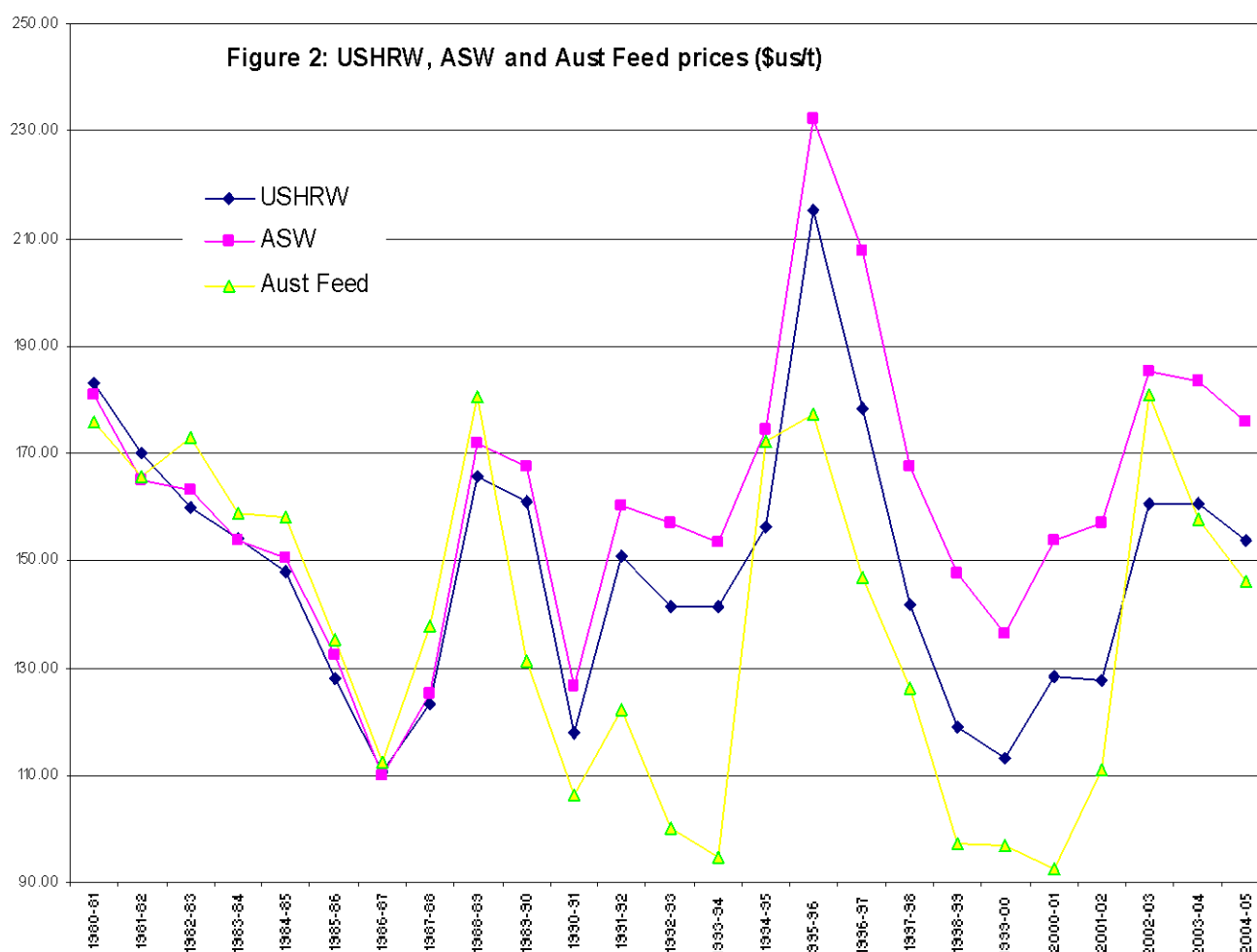
Table 2 – Wheat export earnings from Iraq – 1999 – 2004.

	99-2000	2000-01	2001-02	2002-03	2003-04	Total
Estimated average of prices to Iraq (\$ _A /t)	275*	350**	404*	446*	400**	357.7
Implied value of sales to Iraq (\$ _A million)	692	875	816	333	639	3,356
less Value of Iraq sales at "Overall average of prices"	498	658	581	260	316	2,313
Premium = (Iraq Price - Overall average price) * (Iraq Quantity) in units of \$ _A million	194	218	234	73	323	1,028

* Known figure. ** Estimated.

Appendix 2

- The spread between the grades is approximately US \$20 / T attributable only to quality, not marketing method.
- On this basis it is applicable to find;
 - The monopoly doesn't earn a 'premium' for Australian wheat; it is the inherent milling quality of the wheat that earns the premium.
 - The quality premium above the USHRW benchmark grade is historically approximately US \$20 / T (AUD \$25 / T), or \$325 million³⁵.



³⁵ Based on 13 Mt exports

Wheat Growers Study – October 2007.

The GPI commissioned Roy Morgan Research in September 2007 to survey a representative sample of Australian wheat growers in all mainland states to ascertain their enterprise management priorities and to gain an insight into their wheat marketing intentions for the 2007/08 harvest.

The survey specifically DID NOT ask any questions about the wheat monopoly 'single desk'. Where an opinion about the single desk was proffered by an interviewee, it was unprompted either by the researcher or any survey question.

The results of the Roy Morgan Research Wheat Growers Study represent the first fully independent analysis of how wheat growers place their views of the wheat monopoly in the context of their enterprise management priorities.

This research stands apart because;

- **It was independent** – GPI played no active role in the conduct of the survey or the formulation of the results.
- **It was random** – the process used by Roy Morgan to select survey participants ensured there was no 'self selection' based on opinions. The only qualification for participation was that the grower actually grew wheat.
- **It is representative** – The results were weighted by Roy Morgan to ensure they present an accurate picture of grower's attitudes, by statistically eliminating any regional or demographic bias.
- **It is accurate** – By eliminating 'self selection' through the random selection of survey participants, the Roy Morgan survey eliminates the bias that invalidates other research on growers' attitudes.

The Roy Morgan study successfully placed into context 'concerns' over the single desk.

Key Findings

- The responses from question 1 make it very clear, when taken in combination with the responses to Question 3A, that;
 - the debate over single desk marketing is not a high priority for 90% of growers; and,
 - the national pool is clearly not the preferred method of grain marketing.
- The responses to questions 4 and 5 indicate that 69% of growers believe that the finalisation of the AWB International pool in 2008 will have *little or no impact* on their marketing decisions this year and into the future.
- These results clearly indicate the contention that "80% of growers support the single desk" is incorrect.

The results of this research relate to the results of the recent (October 2007) Rural Press survey, that found 2.1% of farmers believed wheat marketing was an important election issue.

Roy Morgan Wheat Growers Study

Results and Background Briefing

Methodology.

In September Roy Morgan Research (RMR) was provided with a briefing by the Grains Policy Institute, requesting that they undertake an attitudinal survey of Australian wheat producers to establish;

1. Growers' enterprise management priorities and
2. Their wheat marketing intentions for the 2007/08 harvest.

The survey was conducted in October.

Survey participants were selected at random and interviewed over the telephone by experienced RMR researchers. The only qualifying criterion for participation in the survey was that respondents had to be wheat growers.

The same number of growers in WA, SA, Victoria, NSW and Queensland were sampled. Roy Morgan Research then statistically weighted and adjusted the raw survey results to ensure the response rate provides a statistically accurate reflection of the demographics of each state.

Significance of this research.

This research stands apart because;

- **It was independent** – GPI played no active role in the conduct of the survey or the formulation of the results.
- **It was random** – the process used by RMR to select survey participants ensured there was no 'self selection' based on opinions. The only qualification for participation was that the grower actually grew wheat.
- **It is representative** – The results were weighted by RMR to ensure they present an accurate picture of grower's attitudes, by statistically eliminating any regional or demographic bias.
- **It is accurate** – By eliminating 'self selection' through the random selection of survey participants, the RMR survey eliminates the bias that invalidates other research on growers' attitudes.

Key Findings

- The responses from question 1 make it very clear, when taken in combination with the responses to Question 3A, that;
 - the debate over single desk marketing is not a high priority for 90% of growers; and,
 - the national pool is clearly not the preferred method of grain marketing.
- The responses to questions 4 and 5 indicate that 69% of growers believe that the finalisation of the AWB International pool in 2008 will have *little or no impact* on their marketing decisions this year and into the future.
- These results clearly indicate the contention that "70% of growers support the single desk" is incorrect.

- The results of this research relate to the results of the recent Rural Press survey, that found only 2.1% of farmers believed that wheat marketing was an important issue for the election.

Results

The following analysis should be read in conjunction with the RMR report.

It is important to note that the survey **was not about growers' support for the single desk** and that survey respondents were not asked if they did or did not support the wheat export monopoly.

The survey set out to establish growers';

- enterprise management priorities; and,
- their wheat marketing intentions for the current season.

Two additional questions about the national pool were asked after growers had provided their responses on management priorities and marketing intentions.

At no time were survey participants prompted or encouraged to make any statement about the single desk or express an opinion on that matter.

The results clearly show that the majority of survey participants didn't raise the single desk as an issue in the top three or top five issues of importance to them.

The first mention of 'single desk' was priority 6, which related to the *uncertainty* over the policy, rather than a strong expression of support or opposition to the system. These strong expressions ranked as 15th and 19th priorities for survey participants.

Question 1

Thinking about the wheat-growing-side of your business, what are the 3 most important issues at the top of your mind right now?

The responses clearly indicate that the three main priorities for growers are;

1. climate and weather related,
2. the economic performance and profitability of their enterprise; and,
3. general wheat / grain marketing options

Priority 3 – 'Marketing in general' cannot be interpreted as support for, or concern over, the single desk. This category excludes responses related to the single desk, but refers to issues such as competition from buyers, provision of wheat pools, silo opening and closing times, warehousing conditions, pool close off dates, etc. ³⁶

It is clear from the responses to question 1 that *uncertainty* over the single desk and deregulation (11%) is more of a concern than the possible removal of the monopoly (4%) or support for the removal of the monopoly (3%).

All of the responses to Question 1 can be grouped into the following main themes.

- Economics / profitability, 75%
- Climate related, 72%
- Production / research 52%
- Single desk related. 17%
- Other 14%

³⁶ Refer to the footnote on page 8 of "Wheat08 Wheat growers study Report, Roy Morgan Research, November 7, 2007.

1	Drought/ Rain/ Weather/ Climate Change/ Frost Affecting Growth	68%
2	Grain/ Wheat Price/ Financial Return/ Profitability	45%
3	Marketing in general	24%
4	Production/ Input Costs (Spray/ Fertiliser/ Fuel/ Machinery/ Equipment Etc)	24%
5	No/ Poor/ Failing Crop/ Yield/ Harvest	12%
6	Uncertainty About The Single Desk/ AWB/ Deregulation (Unspec)	11%
7	Yield/ Harvest (Unspec)	11%
8	Prices/ Costs (Unspec)	11%
9	Grain Size/ Wheat Quality/ Small Seeds	6%
10	The Economy/ Exchange Rates/ Markets/ Australian Dollar	5%
11	Research Into Wheat Varieties/ Drought Resistant/ GM Crops	5%
12	Crop Diseases/ Rust	4%
13	The Future/ Next Year	4%
14	Fulfilling Contracts/ Forward Contracts/ Pre-Sales	4%
15	I Don't Like/ Am Unhappy About The Abolition Of The Single Desk/ AWB/ Deregulation	4%
16	Water (Unspec)	3%
17	Weather/ Rain/ Storms/ Hail During/ Affecting The Harvest	3%
18	Overseas Trade/ Exports/ Imports	3%
19	I Like/ Am Happy About The Abolition Of The Single Desk/ AWB/ Deregulation	3%
20	Freight/ Transport	2%
21	Government/ Politics/ Red Tape (Unspec)	2%
22	Weeds	2%
23	Water For Irrigation	2%
24	Grain/ Wheat Storage	2%
25	Staff Retention/ Employing New People/ Young People Entering The Industry	1%
26	Sustainability Of Farming/ The Industry	1%
27	Lack Of Government Support/ Subsidies	1%
28	Growing/ How To Grow The Crops	1%
29	Protein Content	0%
	Other	7%
	Can't Say	1%

Question 3

Thinking about marketing your wheat and considering that more than one of these statements may apply, at this stage are you planning to:

- a. Sell your wheat on delivery to the silo for cash.
- b. Sell your wheat to a local trader or merchant.
- c. Warehouse your wheat at the silo and make your marketing decision later.
- d. Store your wheat on farm to market after harvest.
- e. Sell your wheat on delivery to the silo into the AWB national pool.
- f. Sell your wheat on delivery to the silo to another pool provider.

The responses to this question indicate that, of the 6 options given, selling some or all of their wheat to the national pool was the fifth most favoured option by 25% of growers.

1. Sell your wheat on delivery to the silo for cash.	53%
2. Sell your wheat to a local trader or merchant.	32%
3. Warehouse your wheat at the silo and make your marketing decision later.	32%
4. Store your wheat on farm to market after harvest.	31%
5. Sell your wheat on delivery to the silo into the AWB national pool.	25%
6. Sell your wheat on delivery to the silo to another pool provider.	18%

If a and f are combined, that is including non AWB pool providers into 'local trader and merchant' sales, then selling to the AWB national pool *is the least* favoured marketing option nominated by growers.

The survey was carried out during October, at the time the AWB was offering a \$10/T bonus over the EPR if forward selling commitments were made to their pool prior to October 31 2007. Given this factor, it is realistic to posit that the offer by AWB was part of growers' consideration when they nominated their preferred marketing options.

1. Sell your wheat on delivery to the silo for cash.	53%
2. Sell your wheat to a local trader or merchant or to another pool provider.	50%
3. Warehouse your wheat at the silo and make your marketing decision later.	32%
4. Store your wheat on farm to market after harvest.	31%
5. Sell your wheat on delivery to the silo into the AWB national pool.	25%

Selling wheat to AWB **cannot** be equated to 'support for the single desk'.

There are many growers and organisations who;

- chose to sell wheat to AWB on the basis of the attractiveness of the selling option they provide at the time of sale OR
- are forced by the monopoly to sell to AWB, as no other choice exists, (this is particularly the case for many growers in WA and SA *and* for organisations that have grain stocks surplus to domestic consumption).

Question 1 provides an indication of growers' enterprise management priorities, where concerns over the single desk are put in the context of all other factors growers consider on a day to day basis.

Questions 4 and 5.

4 - Are you aware that AWB have announced that this year will be the last year of the National Pool?

5 - Knowing that the AWB will not run the national pool from mid-2008, what impact, if any will it have on your marketing decisions this year? Would you say that it would have-

- a. a major impact
- b. some impact
- c. no impact at all
- d. can't say

The responses to these questions indicate that two thirds of growers were aware of the announcement by AWB that it would be closing AWB International in 2008.

WA had the highest level of awareness at 83%, indicating the dependence that state has on exports. Conversely, the two states with the lowest proportion of exports, QLD and Vic., had the lowest awareness rates.

Interestingly, this is where some of the most strident political support for the export monopoly is located.

The impact of the decision by AWB to finalise its AWB International business was measured in the context of the survey respondents' wheat **marketing decisions this year and into the future** and approximately;

- 26% of growers said the decision would have a major impact on their marketing decisions,
- 37% said it would have some impact on their marketing decisions and
- 32% said it would have no impact on their marketing decisions.

Thus, in responding to the question, 63% of growers said the knowledge of AWB's decision to wind AWB International up would have some impact on their wheat marketing decisions this year and into the future.

However these responses cannot be used to say that any percentage of growers 'support' the single desk.

Growers are acting in a commercial manner, taking into account the possible change of status of one of the current grain buyers.

In the case of 63% of growers, they are *considering the impact* this will have on their marketing decisions – a major or some impact.

In the case of 32% of growers, they stated that this knowledge would have no impact on their marketing decisions this year and into the future.

Question 1 – Priorities Analysis.

1	Drought/ Rain/ Weather/ Climate Change/ Frost Affecting Growth	68%
<p>This is clearly the primary enterprise management focus for growers, with 50% more survey participants nominating weather related issues than the second highest selection.</p> <p>This reflects the drought conditions on the East Coast and into SA and parts of WA and that weather is grain producers' #1 annual variable that can't be controlled. The response will also have been influenced by the time of the year (October) and the susceptibility to frosts of standing crops.</p>		
2	Grain/ Wheat Price/ Financial Return/ Profitability	45%
<p>Ranking financial concerns second highest is also predictable. The second most important variable in a grain production enterprise is the value of the grain produced, as determined by the market. A factor that would have contributed to growers' concerns at the time of the survey would have been the translation of high prices being reported on the global wheat market, to real prices attainable at harvest (when the grower had physical grain to sell).</p> <p>Increases in transport and storage and handling fees would have also been a factor in this response. The cost of production inputs has been included in a separate category, based on the manner in which survey participants provided their responses.</p> <p>As previously noted, the AWB October offer of an additional \$10/T over the pool EPR was current at the time the survey was conducted.</p>		
3	Marketing in general	24%
<p>Responses grouped in this category do not include responses that relate to AWB or the 'single desk'. Those responses are captured in their own category, based on the manner in which survey participants provided their responses.</p> <p>Concerns related to 'marketing' encompass storage and handling fees, transport charges, prices, the availability of pools, the cost of finance, finance products available, competition from buyers, warehousing conditions, access dates, closing dates for pools, etc.</p>		
4	Production/ Input Costs (Spray/ Fertiliser/ Fuel/ Machinery/ Equipment Etc)	24%
<p>The cost of inputs is a critical factor in the profitability of wheat producers. Growers have seen rapid increases in the cost of 'energy' related inputs (fuel, fertiliser, chemicals, transport) without having seen corresponding increases in grain prices. This priority is directly linked to priority #2.</p>		
6	Uncertainty About The Single Desk/ AWB/ Deregulation (Unspec)	11%
<p>The focus of this response is clearly on the <i>uncertainty</i> created by;</p> <ul style="list-style-type: none"> • The announcement by AWB of the winding up of the national pool operation in 2008. • The loss of bi-partisan support for the wheat export monopoly. • The activities of WEMA. <p>This response is not an expression of support for or opposition to the export monopoly, as these opinions are captured and reported separately.</p> <p>Opinions in support of and against the single desk</p> <p>This survey proves that, apart from the small percentage (less than 10%) of growers who are 'politically engaged', the majority of wheat producers have priorities that rank considerably above concern over the wheat single desk.</p> <p>This survey indicates that 4% of growers are opposed to the removal of the single desk and 3% are in favour of it being removed.</p> <p>This result indicates that 7% of growers consider the future of the single desk as an important issue for them (i.e. it is in their top 3 priorities) – with 57% of these growers (4% of the total population of growers) supporting the continuation of the monopoly.</p>		

edge

Discover your

Grains Policy Institute

Wheat growers study

November 7, 2007

Prepared for

Grains Policy Institute

- Prepared by -

Roy Morgan Research

**401 Collins St
Melbourne, Vic 3000**

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INTRODUCTION

Roy Morgan Research was commissioned to complete a short study with wheat growers on behalf of the Grains Policy Institute. The aims of the study were to assess wheat growers' opinions in relation to the marketing of wheat and the single-desk system.

METHODOLOGY/SAMPLING

From 11 to 16 October 2007, five-hundred, 5-minute CATI interviews were conducted across 5 states. The interviews were conducted with wheat farmers who were responsible for the decisions related to the wheat-growing side of the business. The data were weighted according to the number of wheat holdings in each of the states. No interviews were conducted in Tasmania due to the low number of holdings in that state.

	NSW	VIC	SA	WA	QLD	TAS	TOTAL
Number of wheat holdings*	9951	5874	5733	5422	2649	227	29856
Number of interviews	100	100	100	100	100	0	500
Weighting factor	99.5	58.7	57.3	54.2	26.5	-	

*Based on unpublished data from 2004-2005 ABS farm survey.

Respondents in all states except for Western Australia were randomly selected from a database of farmers who had delivered to wheat silos. This list was provided to Roy Morgan Research by the Grains Policy Institute. Respondents from Western Australia were randomly selected from a wheat farmer database provided by Baron Strategic Services.

FINDINGS

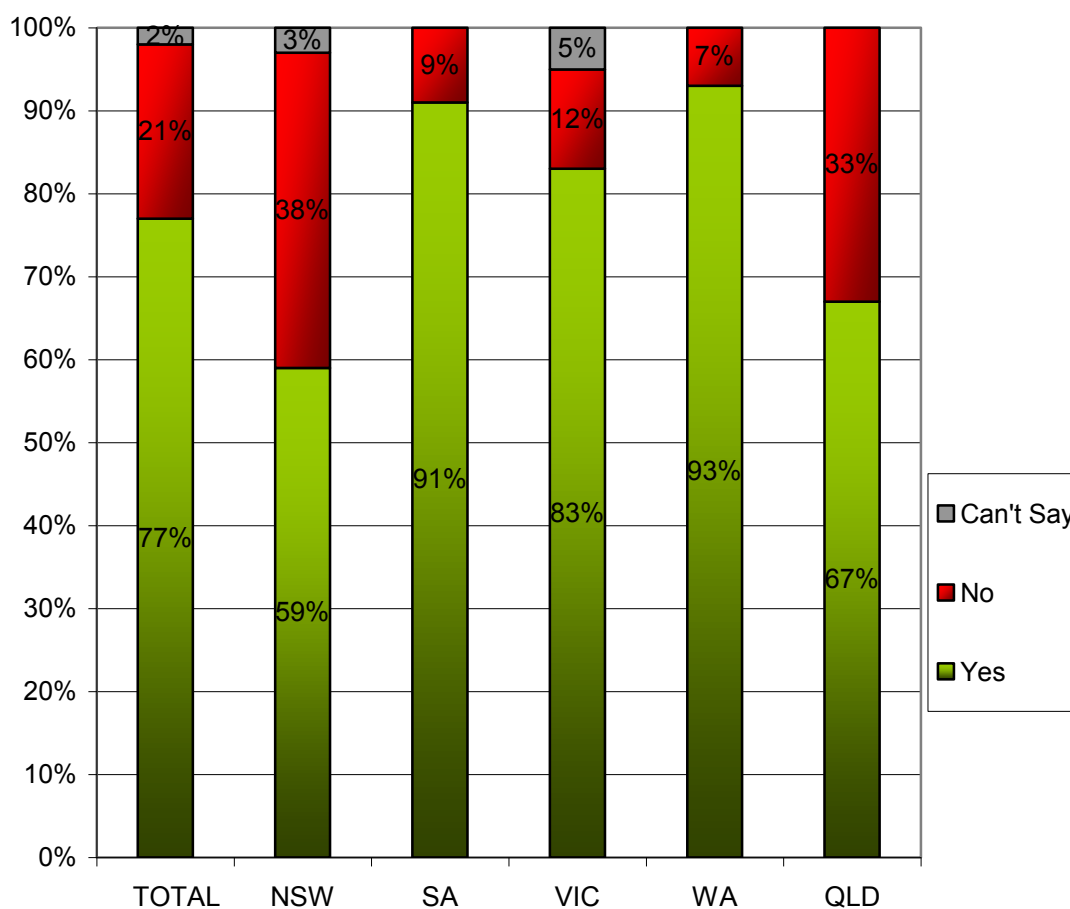
Seventy-seven percent of Australian wheat growers expected to be able to harvest this season. This varied considerably by state: only 59 percent of New South Wales wheat growers surveyed expected to be able to harvest this season compared to 93 percent of Western Australian wheat growers.

At the time of the survey, more wheat farmers intended to sell all or some of their wheat on delivery to the silo for cash (53%) than to utilize the other avenues of marketing. In Queensland, a greater proportion of wheat farmers intended to warehouse some or all of their wheat than any other state (45%). Growers in Western Australia were more likely to intend on selling all or some of their wheat to the AWB national pool than any other state (53%).

The most important issue cited by wheat farmers when they were asked to identify the three most important issues related to the wheat-growing-side of their business was drought, rain, etc. in all states (68%), except for Western Australia where grain/wheat price etc. was the most important issue mentioned (61%). When these issues were grouped into similar themes, it was found that “economic-related issues” were the most often mentioned in all states (75% Australia-wide) except in New South Wales where “climate-related issues” (81 %) were the most important.

Australia-wide, about two-thirds of Australian wheat farmers were aware of the announcement of the final AWB national pool. Western Australian wheat farmers were the most likely to be aware of this fact. More Western Australian growers believed that the end of the AWB national pool would have a major impact on their marketing decisions when compared to wheat farmers in other states (33% compared to 26% Australia-wide). More South Australian growers said that the discontinuation of the AWB national pool will have no impact on them than any other state (44% compared to 32% Australia-wide).

In the following findings, all data are weighted according to the number of wheat holdings in each state as defined by unpublished ABS data from the 2004-2005 ABS Farm Survey.

Figure: Expectation of harvest this season by state*“Q2. Do you expect to be able to harvest wheat this season?”*

Results based on

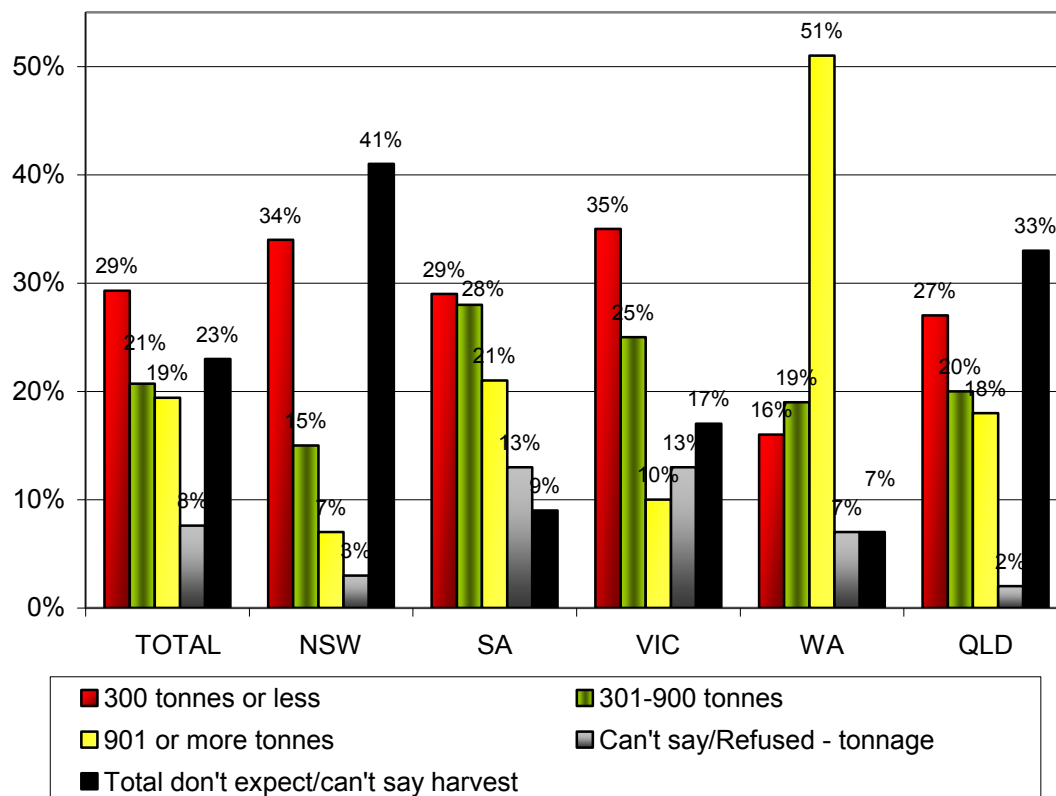
weighted data.

Base = all respondents, unweighted count=500; 100 in each state.

Approximately three-quarters of respondents expected to be able to harvest this season. A smaller proportion of growers in New South Wales and Queensland expected to be able to harvest (59% and 67% respectively) when compared to growers in South Australia and Western Australia (91% and 93% respectively).

Figure: Predicted tonnage for farmers who expected to be able to harvest this season by state

“Q3. Approximately how many tonnes of wheat from your entire wheat crop are you expecting to be able to harvest this season?”



Results based on weighted

data.

Base = all respondents, unweighted count=500; 100 in each state.

Australia-wide, 29 percent of wheat farmers surveyed were expecting a harvest of 300 tonnes or less, 21 percent were expecting a harvest of between 301 to 900 tonnes, and 19 percent expected a harvest of 901 tonnes or more. New South Wales and Victorian farmers were more likely to expect a harvest of 300 tonnes or less (34% and 35% respectively). Conversely, Western Australian farmers were more likely to expect a harvest of 901 tonnes or more (51%).

Table: Intended method of marketing wheat for farmers who expect to be able to harvest this season by state

“Q3A. Thinking about marketing your wheat, and allowing for the fact that more than one of these statements may apply, at this stage are you planning to...”

	TOTAL	NSW	SA	VIC	WA	QLD
Sell Your Wheat On Delivery To The Silo For Cash	53%	49%	65%	42%	61%	34%
Sell Your Wheat To A Local Trader Or Merchant	32%	31%	40%	33%	24%	37%
Warehouse Your Wheat At The Silo And Make Your Marketing Decision Later	32%	31%	32%	24%	39%	45%
Store Your Wheat On Farm To Market After Harvest	31%	42%	30%	39%	9%	37%
Sell Your Wheat On Delivery To The Silo Into The AWB national pool	25%	15%	14%	23%	53%	16%
Sell Your Wheat On Delivery To The Silo To Another Pool Provider	18%	10%	10%	13%	45%	9%
Other	2%	3%	-	1%	2%	-
Can't say	2%	-	2%	2%	2%	1%

Results based on weighted data, multiple responses possible for planned marketing method.

Base = all respondents, unweighted count=393; NSW=59, SA=91, VIC=83, WA=93, QLD=67.

Respondents who expected to be able to harvest this season were then asked how they planned to market their current crop from a list of options. Respondents were able to select more than one of these options: for example a respondent could indicate that they intended to store some wheat on farm to market later and sell some wheat to the silo for cash.

Farmers were more likely to plan to sell some or all of their wheat on delivery to the silo for cash (53%) than any other marketing method. This was the most likely method in all states except Queensland, where farmers were more likely to warehouse their wheat at the silo. A greater proportion of South Australian farmers planned to sell their wheat to a local trader or merchant than the national average (40% compared to 32%). Western Australian farmers were more likely to plan to sell some or all of their wheat to the AWB national pool than the national average (53% compared to 25%).

Figure: Planned marketing method by expected tonnage of wheat

“Q3A. Thinking about marketing your wheat, and allowing for the fact that more than one of these statements may apply, at this stage are you planning to...”

“Q3. Approximately how many tonnes of wheat from your entire wheat crop are you expecting to be able to harvest this season?”

		TOTAL	300 tonnes Or Less	301-900 tonnes	901 tonnes or more	Can't say/Ref.
(unweighted)	uc	393	141	107	107	38
(popn. '000)	wc	23003	8755	6195	5781	2272
Sell Your Wheat On Delivery To The Silo For Cash	wc	12168	3791	3745	3822	810
	v%	53%	43%	60%	66%	36%
Warehouse Your Wheat At The Silo And Make Your Marketing Decision Later	wc	7446	2000	1850	2918	677
	v%	32%	23%	30%	50%	30%
Sell Your Wheat To A Local Trader Or Merchant	wc	7384	2155	2203	2462	563
	v%	32%	25%	36%	43%	25%
Store Your Wheat On Farm To Market After Harvest	wc	7077	3103	1672	1468	834
	v%	31%	35%	27%	25%	37%
Sell Your Wheat On Delivery To The Silo Into The AWB National Pool	wc	5737	1839	1092	2057	749
	v%	25%	21%	18%	36%	33%
Sell Your Wheat On Delivery To The Silo To Another Pool Provider	wc	4217	1369	647	1852	349
	v%	18%	16%	10%	32%	15%
Other	wc	366	212	-	54	100
	v%	2%	2%	-	1%	4%
Can't say	wc	372	145	114	54	59
	v%	2%	2%	2%	1%	3%

Results based on weighted data, multiple responses possible for planned marketing method.

Base: Farmers who expect to be able to harvest wheat this season, Unweighted Count=393: 300 or less=141, 301-900=107, 901 or more=107.

v% represents the percentage of the weighted counts within the column.

Approximately two-thirds of wheat farmers who expected a tonnage of 901 Tonnes or more, intended to sell some or all of their wheat on delivery to the silo for cash. Growers expecting a larger tonnage were more likely to plan to use more than one method of marketing.

Table: Top most important wheat-growing-related issues by state

“Q1. Thinking about the wheat-growing-side of your business, what are the 3 most important issues at the top of your mind right now?”

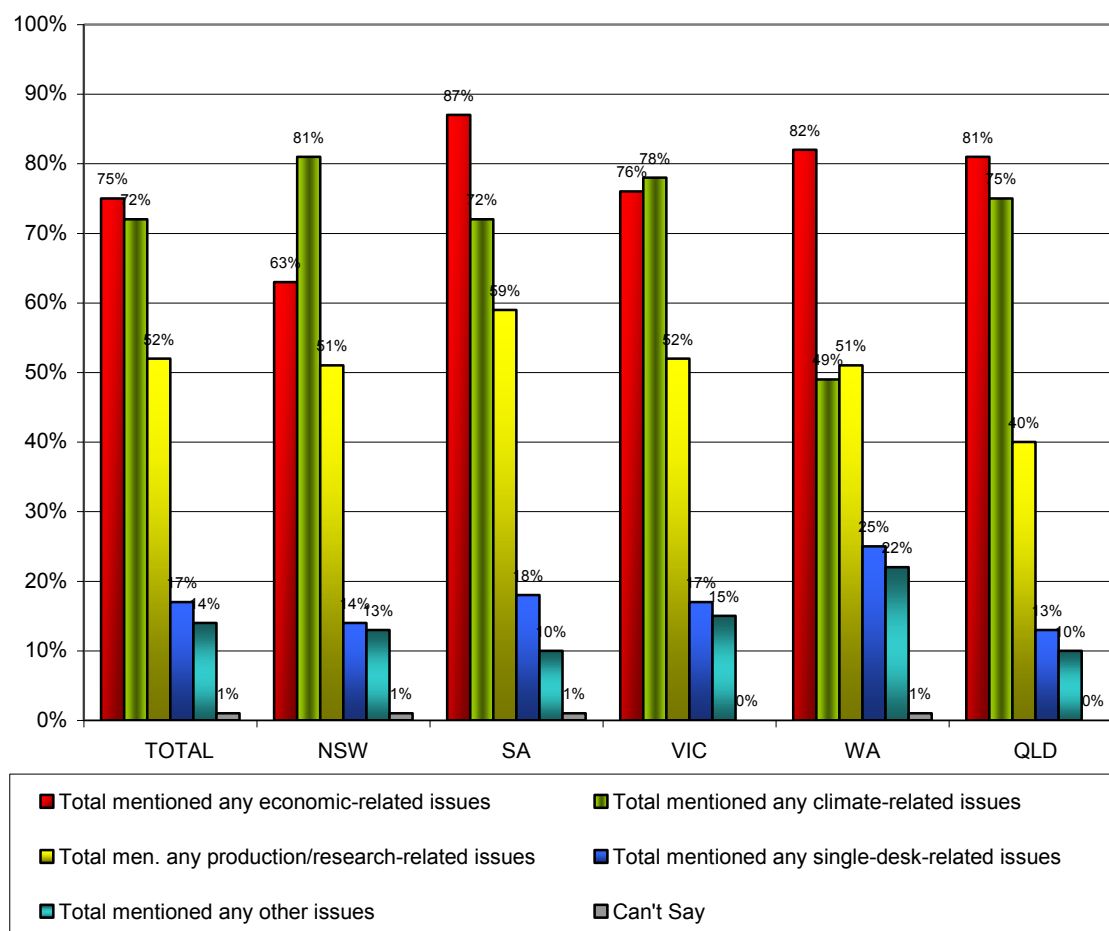
	TOTAL	NSW	SA	VIC	WA	QLD
Drought/ Rain/ Weather/ Climate Change/ Frost Affecting Growth	68%	73%	71%	78%	47%	64%
Grain/ Wheat Price/ Financial Return/ Profitability	45%	32%	42%	49%	61%	56%
Marketing	24%	18%	30%	19%	34%	23%
Production/ Input Costs (Spray/ Fertiliser/ Fuel/ Machinery/ Equipment Etc)	24%	23%	25%	23%	27%	17%
No/ Poor/ Failing Crop/ Yield/ Harvest	12%	17%	10%	19%	2%	5%
The Abolition Of/ Uncertainty About The Single Desk/ AWB/ Deregulation (Unspec)	11%	7%	12%	13%	17%	8%
Yield/ Harvest (Unspec)	11%	10%	14%	6%	14%	12%
Prices/ Costs (Unspec)	11%	11%	22%	6%	6%	2%
Grain Size/ Wheat Quality/ Small Seeds	6%	5%	9%	3%	6%	9%
The Economy/ Exchange Rates/ Markets/ Australian Dollar	5%	5%	9%	1%	4%	11%
Research Into Wheat Varieties/ Drought Resistant/ GM Crops	5%	1%	12%	3%	7%	4%
Crop Diseases/ Rust	4%	2%	11%	2%	6%	1%
The Future/ Next Year	4%	5%	3%	4%	5%	2%
Fulfilling Contracts/ Forward Contracts/ Pre-Sales	4%	3%	9%	5%	-	1%
I Don't Like/ Am Unhappy About The Abolition Of The Single Desk/ AWB/ Deregulation	4%	3%	2%	4%	6%	4%
Water (Unspec)	3%	8%	1%	2%	-	1%
Weather/ Rain/ Storms/ Hail During/ Affecting The Harvest	3%	-	-	4%	3%	17%
Overseas Trade/ Exports/ Imports	3%	2%	3%	5%	1%	4%
I Like/ Am Happy About The Abolition Of The Single Desk/ AWB/ Deregulation	3%	4%	4%	-	2%	1%

Results based on weighted data, multiple responses possible, only top responses are displayed.
Base = all respondents, unweighted count=500; 100 in each state.

When farmers were asked what were the three most important issues related to the wheat-growing-side of the business, the number one response was drought, rain, etc. (68%), followed by grain price, profitability, etc (45%) and marketing in general (24%). These were the top two responses in all states except for Western Australia. In Western Australia, farmers were more likely to identify grain price, profitability, etc. (61%) and marketing in general (34%) as important issues when compared to the national average (45% and 24% respectively).

Figure: Most important wheat-growing-related issues (grouped) by state

“Q1. Thinking about the wheat-growing-side of your business, what are the 3 most important issues at the top of your mind right now?”



Results based on weighted

data, multiple responses possible.

Base = all respondents, unweighted count=500; 100 in each state.

When the issues identified in the previous figure were grouped into similar themes, it was found that “economic-related issues” were the most often mentioned in all states (75% Australia-wide) except in New South Wales where “climate-related issues” (81%) were the most important.

Table: Grower awareness of final year of AWB national pool by state

“Are you aware that AWB have announced that this year will be the final year of the national pool?”

	TOTAL	NSW	SA	VIC	WA	QLD
Yes	67%	63%	65%	62%	83%	62%
No	33%	37%	35%	38%	16%	37%
Can't Say	*	-	-	-	1%	1%

* indicates less than 0.5 percent.

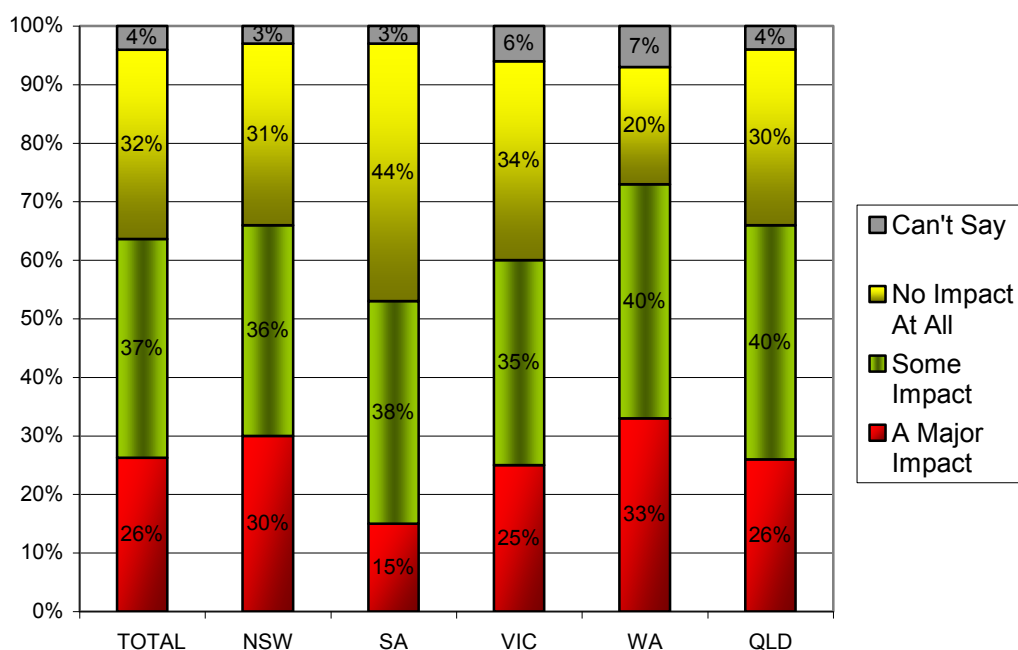
Results based on weighted data.

Base = all respondents, unweighted count=500; 100 in each state.

Two-out-of-three wheat farmers were aware that AWB had announced this year will be the final year of the AWB national pool. Awareness of this fact was highest in Western Australia (83%) and the lowest in Queensland and Victoria (both 62%).

Figure: Impact of end of AWB national pool by state

“Q5. Knowing that the AWB will not run a national pool from mid-2008, what impact, if any will it have on your marketing decisions this year or into the future? Would you say it will have...”



Results based on weighted data.

Base = all respondents, unweighted count=500; 100 in each state.

About one-quarter of respondents said that the cessation of the AWB national pool will have a major impact on their marketing decisions, 37% said that it will have some impact and 32% said that it will have no impact at all. Western Australia had the greatest proportion of farmers who believed it will have a major impact (33%). South Australia had the greatest proportion of farmers who believed that the cessation of the National pool will have no impact at all on their marketing decisions (44%).

Figure: Impact of end of AWB national pool by planned marketing method

“Q5. Knowing that the AWB will not run a national pool from mid-2008, what impact, if any will it have on your marketing decisions this year or into the future? Would you say it will have...”

“Q3A. Thinking about marketing your wheat, and allowing for the fact that more than one of these statements may apply, at this stage are you planning to...”

		TOTAL	A Major Impact	Some Impact	No Impact At All	Can't Say
(unweighted)	uc	500	129	189	159	23
(popn.)	wc	29873	7828	11138	9591	1316
	h%	100%	26%	37%	32%	4%
Sell Your Wheat On Delivery To The Silo For Cash	wc	12168	2547	5332	3948	341
	h%	100%	21%	44%	32%	3%
Warehouse Your Wheat At The Silo And Make Your Marketing Decision Later	wc	7446	1955	3249	1956	285
	h%	100%	26%	44%	26%	4%
Sell Your Wheat To A Local Trader Or Merchant	wc	7384	1856	2597	2871	60
	h%	100%	25%	35%	39%	1%
Store Your Wheat On Farm To Market After Harvest	wc	7077	1465	2430	3083	100
	h%	100%	21%	34%	44%	1%
Sell Your Wheat On Delivery To The Silo Into The AWB national pool	wc	5737	2098	2531	693	415
	h%	100%	37%	44%	12%	7%
Sell Your Wheat On Delivery To The Silo To Another Pool Provider	wc	4217	958	1825	1213	221
	h%	100%	23%	43%	29%	5%
Other	wc	366	199	167	-	-
	h%	100%	54%	46%	-	-
Can't say	wc	372	59	81	114	119
	h%	100%	16%	22%	31%	32%
Total don't expect/can't say if expect harvest this season	wc	6870	2433	2219	1901	317
	h%	100%	35%	32%	28%	5%

Results based on weighted data, multiple responses possible for planned marketing method.

Base = all respondents, Unweighted Count=500: Cash=203, Warehouse=101, Local trader=128, Store on farm=117, AWB=101, Another provider=74, Other=5, Can't Say=7, Total don't expect/can's say harvest=107.

h% represents the percentage of the weighted counts within the row.

Besides the small number of farmers who had planned to use “other” methods of marketing their wheat, it was found that the farmers who had planned to sell some or all of their wheat into the AWB National pool were the most likely to think that the cessation of the National pool would have a major impact on their marketing decisions (37% compared to 26% all methods combined).

Reform of the Bulk Wheat Export Monopoly

The GPI released its policy paper (#2) on the structure of an accreditation system for multiple bulk wheat exporters on January 29th 2007.

The basic aims of the policy to replace the export monopoly are to;

1. 'De-politicise' the regulation of wheat exports,
2. Reduce the cost and complexity of regulation and provide a clear focus on regulatory efficiency and effectiveness; and,
3. Achieve better commercial outcomes for the whole wheat industry.

The policy paper proposed that any new Commonwealth legislation to replace the export monopoly should be based on the successful bulk barley exporter licensing arrangements introduced in South Australia in July 2007.

The reform of the barley export monopoly in South Australian represents a logical transition between monopoly and deregulation of bulk grain exports.

Basing any new national wheat regulation on the South Australian model was proposed as logical,

- given the thoroughness of the review that was undertaken into removing the barley monopoly in South Australia, and;
- the commonality of issues raised both for and against removal of the monopoly,

The South Australia bulk barley exporter licensing system focuses on ensuring that entrants to the bulk export market have the financial capacity to fund the purchase of grain from growers.

The accreditation system proposed in the GPI policy paper focused on the same factors considered during the reform process undertaken in South Australia, while proposing some additional measures to enhance the domestic wheat market.

The domestic wheat market has been fully deregulated since 1989 with no adverse impacts on wheat growers. In fact, since the market was de-regulated, it has grown by more than 50%, with most of that growth fuelled by demand from the domestic livestock sector.

It is important to note that there are no distinct 'domestic' or 'export' wheat markets that growers sell to. All wheat is sold by growers into the deregulated domestic market. Wheat sold to export customers is the property of the trader who purchased that wheat from growers, or from another trader.

It is the position of the GPI and its participants that removal of the monopoly and its replacement with a bulk exporter accreditation system is not full de-regulation. However the proposed reforms will generate significant competition that will;

- Increase competition for the purchase of wheat from growers, in the process shifting market power from the current monopolist and traders, to wheat growers,
- This will drive down the cost of marketing wheat in both the domestic and international markets,
- This in turn will contribute to the maximisation of growers' net returns.

Principles for Reform of the Bulk Wheat Export Monopoly

Policy Paper # 2

Grains Policy Institute

January 29th 2007.

Précis.

Reform of the regulations restricting the export of bulk wheat should;

4. *'De-politicise' the regulation,*
5. *Reduce the cost and complexity of regulation and provide a clear focus on regulatory efficiency and effectiveness; and,*
6. *Achieve better commercial outcomes for the whole wheat industry.*

Focusing on these key elements will 'normalise' the wheat sector, by allowing clear pricing and market signals to emerge. This will create a fairer wheat market in Australia. Wheat producers will receive prices that are more reflective of the global value of wheat.

Replacing the monopoly with a simple and efficient accreditation system, focused on the prudential strength and performance of exporters, will complete the reform agenda started by Labor in 1984, when feed wheat was removed from the Australian Wheat Board's compulsory acquisition powers.

This paper recommends adoption of an accreditation system based on the export barley licensing system introduced by the South Australian Government in mid 2007.

The work that went into developing the South Australian model can be directly transferred to the wheat industry, without the need to duplicate either the consultation or evaluation processes carried out in the lead up to those reforms.

The monopoly is a huge barrier to development and innovation. Its removal promises to revitalise an industry that is struggling to respond to global and domestic market pressures, particularly rising input costs.

Completion of the reform process by August 2008 will allow the wheat sector to enter the 2008/09 harvest period with a degree of certainty that has not existed for more than a decade.

Key recommendations;

- *All steps should be taken to ensure the political mendacity at the core of the current regularity system is eliminated.*
- *The reforms proposed for the bulk wheat export monopoly should mirror those undertaken in South Australia during 2007.*
- *Organisations that continue to embrace the monopoly 'single seller - single desk' policy should be peripheral to the regulatory reform process.*
- *The Government should aim to reduce the cost of regulating bulk wheat exports from the current direct cost of almost \$4 million to under \$500,000 PA.*
- *It is recommended that the EWC cease operation on July 1st 2008.*

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De-politicising regulation of bulk wheat exports.

The wheat export monopoly has not only stifled the development of clear and effective pricing and market signals, but it has allowed the wheat industry to become highly politicised, polarised and overly negative.

The negativity that pervades the wheat sector impacts on the whole of the grains industry and spills over into the other sectors of agriculture that rely on the grains industry for inputs, including dairy, feed-lotting, intensive livestock and potentially, biofuels.

Since the 1996 / 99 structural changes to the Australian Wheat Board, State Farming Organisations (SFOs), their peak body the Grains Council of Australia³⁷ (GCA) and the National Party have exercised an unreasonable level of influence over the wheat sector through the AWB export monopoly.

This influence has not been focused on achieving commercial outcomes for farmers and the industry at large, but has been exercised for political purposes in the following ways;

- The ability of the Government to remove AWB's monopoly was removed from the Wheat Marketing Act (the Act) when it was being drafted at the time of the privatisation of the Australian Wheat Board, under pressure from GCA and its members.
- Regular reviews of the Act were removed when it was being drafted, under pressure from the GCA, its SFO members and the Nationals. This effectively meant that AWB had its monopoly 'in perpetuity'. This situation was addressed with amendments to the Act following the adverse findings from the Cole Commission against AWB.
- The powers of the Wheat Export Authority (WEA) were significantly curtailed at the time they were being drafted after political intervention by GCA and its members.
- The WEA was left with a retrospective pool performance reporting role, rather than real regulatory powers. This ensured that the WEA was effectively a 'toothless tiger'.
- The lack of oversight of AWB's management of the monopoly and its unregulated behaviour contributed significantly to the rorting of the United Nations Oil for Food program by AWB³⁸.
- The terms of reference for the 2004 Review of the Act were watered down after intervention by AWB and GCA. This ensured the Review only focused on the *administration* of the Act, rather than the *need for* the monopoly, which was not the original intention of the Review.
- The Grains Council and its members played a significant role in appointing members of the WEA board. The process of recommending appointments to the Minister was compromised and unprofessional.
- The Grains Council and AWB worked closely, up until 2005, to ensure that the WEA was not critical of the performance of AWB's management of the monopoly. GCA used its role as the focus of 'industry consultation' to block moves by the WEA to criticise AWB.

To achieve successful reform of the bulk wheat export sector, all steps should be taken to ensure the political mendacity at the core of the current regularity system is eliminated.

³⁷ The author, David Ginns, was the Chief Operating Officer of the Grains Council of Australia from January 2004 until his resignation in August 2007.

³⁸ This contention is supported by the findings of the Cole Commission.

Achieving better commercial outcomes for the whole wheat industry.

Capture of the current regulatory regime by political interests has polarised the industry and created a focus on *political* outcomes, not the *commercial development* of a profitable and sustainable wheat industry.

The current monopoly has isolated the wheat industry from price signals and market dynamics. As a consequence, the industry has not 'matured' beyond a 1950's style 'centralised control' paradigm. This has caused the current malaise in the industry, where decision and policy making structures are sub-optimal.

Commercially, a range of innovations available to growers and the trade in competitor countries are not available in Australia. The Australian industry has few sophisticated risk management options available to the trade and to growers.

A sophisticated derivatives market, like the SAFEX³⁹ exchange established in South Africa after its wheat industry was deregulated in 1997, would add considerable value to the industry. Such a market will emerge within 2 to 3 years after the export monopoly is removed.

Recommended model for the national bulk wheat exporter accreditation system.

An exporter accreditation system focusing on the prudential fitness of exporters will dramatically simplify regulation of the industry. It will also reduce regulatory and marketing costs that are passed back to growers.

The reforms proposed for the bulk wheat export monopoly should mirror those undertaken in South Australia during the early part of 2007.

The barley export licensing system implemented by the South Australian government in July 2007 is efficient and effective. Most, if not all, of the organisations that will apply for bulk wheat export accreditation under the Government's scheme, have already been granted licences to export barley in bulk from South Australia.

The reforms to the South Australian barley single desk were implemented following extensive consultation with all sectors of the industry. The matters raised in that consultation and subsequently addressed in that licensing scheme will mirror those raised in reference to wheat.

The lessons learned in South Australia from the removal of the barley single desk can be readily transferred to the wheat sector.

Duplicating the process which preceded the introduction of the licensing system in South Australia would be a waste of resources that could be better employed elsewhere.

The South Australian barley export licensing system.

The barley licensing system introduced in South Australia is focused on outcomes rather than processes. Protection of the long term interests of the consumers of barley export services (growers) is the primary objective of the SA system.

It is envisaged that a similar primary objective would be placed by the Government on any national wheat exporter accreditation scheme.

³⁹ <http://www.safex.co.za/ap/>

Applicants for bulk barley export licences are assessed using the following criteria;⁴⁰

- Clear identification of the legal entity that is seeking a licence.
- Demonstration that a prospective licensee has or will retain sufficient operational resources to carry out activities authorised by the license.
- Provision of information relating to the;
 - Scope of operations intended to be carried out under the licence,
 - Details of the applicant's experience exporting grain,
 - The human resources available to the applicant,
 - The systems and processes the applicant will use, particularly those used for grower payments.
- Proof that the licensee has the required financial resources,
- Proof that there is capacity to meet relevant financial obligations,
- Proof that the applicant has capital support arrangements, a credit history and business continuity arrangements in place.
- The licensee has the ability to meet the regulatory obligations imposed by the barley export licence.

In assessing the suitability of an applicant, the scheme regulator considers that;

- The applicant is a suitable person to hold a license.
- The applicant will be able to meet reasonably foreseeable obligations under barley export contracts.
- Granting of the licence would be consistent with the prescribed regulations.
- The applicant has relevant experience.
- An applicant has shown in their past commercial and other dealings, competence, diligence, honesty, integrity and judgement.
- An applicant has relevant resources available.

The system doesn't intervene in the commercial relationship between a buyer and seller, in the same way the current container export 'quality program' does.

An accreditation system that mirrors that of SA will be the most efficient and effective to implement.

Reducing the regulatory cost burden.

The Export Wheat Commission is funded by the Wheat Export Charge⁴¹ (WEC), a levy that raises up to \$3 million PA, supplemented by direct grants from the Government, to almost \$4 million PA.

It is reasonable to argue that the direct flow-on cost to industry from the current regulatory system is five times that of the direct cost⁴² of the EWC, possibly up to \$20 million PA.

⁴⁰ Licensing Arrangements for the South Australian Barley Exporting Industry, AB5/1, ESCOSA May 2007.

www.escosa.sa.gov.au

⁴¹ \$0.22 / T levy imposed on all wheat exported.

⁴² This includes the cost of collecting and administering the Wheat Export Charge, all direct costs related to the container export quality program, the cost of applying for bulk export consents and supporting that process within commercial organisations and includes an estimate for income foregone through 'lost opportunity' from missed transactions and other opportunities associated with the consent application process and the monopoly.

Any savings on the cost of regulation will be of direct benefit to growers, as the direct and indirect cost of regulating the current wheat export monopoly averages out to be about \$1100 per grower per year.⁴³ The new regulatory system should be considerably cheaper to administer as it would not encompass;

- a) A 'quality program' for containerised wheat exports ; and,
- b) The requirement for the regulator to provide extensive analysis of and reporting on the management of a monopoly export wheat pool.

The Government should aim to reduce the cost of regulating bulk wheat exports to under \$500,000 PA.

Regulatory cost comparison

	Funding Source	Approx. Annual Cost
Export Wheat Commission	Levy on all exported wheat	\$4 million
West Australian - Grains Licensing Authority	License fees	\$325,000 ⁴⁴
South Australia - ESCOSA	License fees	\$100,000 ⁴⁵

Reducing the complexity of regulation.

The core business of the Export Wheat Commission (EWC) is to retrospectively report on the management by AWB of the monopoly export wheat pool. This forensic reporting consumes the majority of the Commission's resources.

When the previous Government amended the Wheat Marketing Act in early 2007, it removed the 'consent' requirement for wheat exported in containers. This requirement was replaced with a 'quality program' and the EWC was given the task of overseeing this program.

The amendments to the Wheat Marketing Act introduced to the House on June 14th 2007 were described by the Parliamentary Library⁴⁶ in the following terms. *"...In relation to the proposed quality assurance system for bagged and container (non-bulk) exports, no explanation has been given as to the deficiencies in the existing body of commercial/contract law which warrant special treatment of rogue traders. Exports of other agricultural and food products such as meat, rice, sugar etc do not involve a targeted approach to ensure exporters comply with the provisions of their contracts as a means of preserving Australia's good reputation as a supplier..."*.

As part of its reform initiative, the Government should remove the current container export 'quality program' and leave the matter of grain quality to the commercial contract between the exporter and the buyer.

With the scheduled introduction of the Government's reform of the wheat monopoly by July 1st 2008, there will be no need for the EWC to continue this task.⁴⁷

It is recommended that the EWC cease operation on July 1st 2008.

⁴³ This assumes that the total cost to industry of the EWC / WEA is \$20 M PA and there are 18,000 wheat growers (using AWB 'A' class shareholder figures) who participate in wheat export pools or cash transactions where the Wheat Export Charge is applied.

⁴⁴ Grains Licensing Authority WA, Annual Report to Minister, http://www.gla.wa.gov.au/documents/GLA%20Report_Minister_2006-07.pdf

⁴⁵ Report by the SA Barley Marketing Working Group, December 2006, (pp 80), <http://www.escosa.sa.gov.au/webdata/resources/files/061222-D-2006BarleyMarketingWorkingGroupReport.pdf>

⁴⁶ Parliament of Australia, Parliamentary Library, Bills Digest, 186, 2006 – 07.

⁴⁷ It could be argued that there is also no need for the EWC to report on the management of the AWB 2007/08 national pool, as the pool will be small and is likely to be finalised before the end of the 2007/08 financial year.

A regulatory alternative.

It is feasible that the new regulator could be managed as a 'desk' within the Department of Agriculture, Fisheries and Forestry (DAFF), the Australian Competition and Consumer Commission or another suitable Department, rather than being established as a new statutory organisation. This would eliminate the need for an administration and management structure and reflects the pragmatic approach adopted in South Australia.

Input and advice on the performance of the accreditation desk can be provided by a Ministerial Advisory Panel or via a contracted, independent third party⁴⁸ review of the performance of the regulatory reforms.

Such an approach will allow the Government to reach the direct regulatory cost target of less than \$500,000 per annum, saving the average wheat grower up to \$960⁴⁹ per annum.

Summary.

Labor commenced reform of the wheat industry in 1984, when feed wheat was removed from the Australian Wheat Board's compulsory acquisition regime. Labor continued reform of the sector when it totally removed compulsory acquisition in 1989.

The reforms proposed by the Government are the logical end to a process of 'normalisation' of wheat marketing that has taken a quarter century to achieve.

Removal of the monopoly will generate a range of positive changes to the whole of the grains industry, in the same way removal of compulsory acquisition did twenty years ago.

Since then the wheat industry has grown by more than half and a competitive domestic market for wheat has developed, precipitating a rapid increase in domestic consumption of wheat from the dairy, feed-lotting and intensive livestock sectors.

This in turn has added hundreds of millions to the gross value of agricultural production and contributed significantly to the economic sustainability of regional Australia.

The monopoly is a huge barrier to development and innovation. Its removal promises to revitalise an industry that is struggling to respond to global and domestic market pressures, in particular rapidly rising input costs.

Completion of the reform process by August 2008 will allow the wheat sector to enter the 2008/09 harvest period with a degree of certainty that has not existed in the industry for more than a decade, as the export monopoly 'war' will be over.

⁴⁸ This could include an accounting firm or other agency with the required experience at assessing the impact of regulatory reform.

⁴⁹ Employing the same assumptions described in footnote 9, page 7.

Wheat industry development.

Much of the debate about industry structures post the removal of the export monopoly has been centred on the 'industry good' functions carried out by AWB, 'on behalf of the industry'.

It is the contention of the participants in GPI that AWB;

- a) didn't carry out any activities 'on behalf of industry'. AWB was the monopolist so it represented the quantum of the industry (where 'industry' is the bulk wheat export sector), and;
- b) the activities that AWB did carry out were primarily 'commercial' and would be replicated by exporters in the normal course of managing a relationship with a commercial partner.

The AWB agri-political activity, the 'roundtable' and the 'consult groups', was included in the 'industry good' budget and cannot be considered as 'normal commercial activity'.

The push from representative groups to form a new organisation to "carry out industry good activities", was indicative of a desire to continue politicisation of the wheat sector, as removal of the monopoly would constitute the removal of a major agri-political focus point.

AWB ceased to fund its agri-political groups in 2007 at approximately the same time the company reduced the monopoly management 'base fee' and cut back on its 'industry good' activities. Since that time, the 'roundtable' and the 'consult groups' have been largely ineffective.

To address the matter of wheat industry development, the Government announced the formation of an Industry Expert Group (IEG). This group released its preliminary report to Government in early March 2008.

The recommendations in the IEG report largely replicate the policy position enunciated in the GPI Policy Paper #1 released on January 14th 2008.

**Wheat 'Industry Good' Functions.
Creating a commercial focus for future prosperity.**

Policy Paper # 1

Grains Policy Institute

January 14th 2008

Précis.

The basic premise of this policy paper is that there is no generic 'industry good' role in the Australian wheat industry that warrants the establishment of an industry development organisation.

The activities known colloquially as 'industry good' were carried out by the monopoly exporter as part of its role as the sole bulk exporter of Australian wheat.

Most of the activities defined by the monopoly exporter and others as 'industry good' are customer support activities carried out by all exporters of grain as components of their commercial customer relationship management initiatives.

Some functions, such as setting of receival standards and wheat varietal classification, were facilitated by the monopoly exporter in cooperation with relevant industry organisations. These activities will continue after the wheat monopoly is reformed.

No 'industry good' functions are prescribed by Government fiat. The Government should not become involved in 'allocating' roles or responsibilities to particular sections of the industry and there is no requirement for the Government, as a function of its regulatory reform process, to intervene or spend taxpayer monies on so-called wheat 'industry good' activities.

The industry has the capacity, within current processes and structures, to assume stewardship of all of the non-commercial tasks the monopoly exporter carried out under the guise of 'industry good'.

If, after a period of time, it emerges that an organisation is required for international promotion of the Australian wheat or grains industry, or for coordination of 'common good' initiatives, the industry is mature and well resourced enough to address these matters independently of Government, on an 'as needed' basis.

This is an approach that has worked successfully in other sectors with the formation of the Australian Oilseeds Federation, Pulse Australia and Barley Australia.

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Background.

With the end of the 'single desk', there is speculation about the structure(s) that may or may not carry out what are referred to colloquially as 'industry good' functions.

Much of the discussion and speculation over 'industry good' reflects a poor understanding of the manner in which AWB executed its customer relationship management (CRM) initiatives.

Many of the so called AWB 'industry good' activities, particularly those related to technical product support and market development, will be undertaken by all wheat exporters, as part of their normal commercial CRM programs.

Regrettably the wheat export monopoly has provided a platform for domination of the industry by politics, to the detriment of all industry participants.

The reforms proposed by the Government present an opportunity to 'de-politicise' the industry, in the process replacing political motivations with a clear commercial focus on;

- Growing the total revenue generated from the grains industry from both the domestic and international markets,
- Diversification of Australian wheat away from that of international competitors,
- Increasing efficiency on-farm and through the value chain,
- Addressing structural investment imbalances caused by the monopoly, particularly in the area of infrastructure.

'Industry Good' functions.

The following activities are referred to by AWB as 'industry good' functions.

1. Policy and regulatory advice.
2. Trade advocacy.
3. Wheat variety classification.
4. Receival standard setting.
5. Generic promotion of 'Australian Wheat'.
6. Technical Services and R&D.
7. Australian crop report.
8. Industry strategic planning.
9. Crop shaping.

Following the removal of the monopoly, the activities listed above should be considered in the following manner;

- A. Policy, regulatory and trade advice (Points 1 and 2) will be redundant following announcement of the intention to remove the export monopoly.
- B. Wheat variety classification and receival standard setting (Points 3 and 4) can be carried out by groups or organisations *currently involved* in these activities, with additional input from new wheat exporters.
- C. Promotion, technical support, marketing strategy and crop shaping through pricing signals (Points 5 to 9) are integral parts of commercial CRM programs executed by all exporters to manage their commercial relationships with existing and new customers.

1 Policy and regulatory advice.

The majority of policy and regulatory advice provided by AWB to previous Governments focused on support for continuation of the company's control of the wheat export monopoly.

- AWB had a 'compliance' team that worked specifically on meeting requirements under the Wheat Marketing Act and managing interaction with the Wheat Export Authority (WEA).
- A second team undertook a primarily political 'government relations' role which supported AWB's continued management of the monopoly. The activities of this team featured significantly during the Cole Commission in 2006.

The proposed changes to the Wheat Marketing Act eliminate the need for policy and regulatory advice specifically related to an export monopoly, as the abovementioned activities were. Advice to Government on general policy and regulatory matters can be sourced from existing industry groups or processes.

2 Trade advocacy.

AWB invested heavily in supporting the single desk in the World Trade Organisation related trade negotiations. A trade advocacy team within AWB worked with DFAT to support the Government policy of the day.

With the removal of the single desk and the related shift in negotiating position of the Government in the WTO as a consequence of its wheat export policy, this role will become redundant.

3 Wheat variety classification.

Wheat variety classification is the assessment of new wheat varieties to establish end use characteristics⁵⁰. As the monopoly exporter, AWB controlled all direct market signals from customers and thus played a central role in determining the classification of wheat varieties. AWB provided the secretariat for the National Wheat Classification Panel, a process that produces the Wheat Classification Guidelines and the Master Varietal List.

The current Panel can be reorganised to involve new bulk wheat exporters once they are accredited and commence trading. The advent of multiple exporters will change the dynamics of the *process* of variety classification, but not the *outcome* of this process.

The industry has the capability to carry out varietal classification through the existing process. The Grains Research and Development Corporation (GRDC) may be prevailed upon to temporarily facilitate varietal classification while a new secretariat for the Panel is developed. *A new structure to progress this function is not needed.*

4 Receival standard setting.

As the monopoly exporter, AWB was the sole arbiter of receival standards⁵¹ applied to wheat received at 800 accumulation points across Australia. The introduction of multiple exporters will allow the trade to retain the current receival standards set by AWB or choose, on the basis of market feedback, to modify them.

⁵⁰ The suitability of a particular variety of wheat for a particular end use, raised breads, flat breads, biscuits, cakes, noodles, fractions such as semolina, etc. is determined by both the genetic makeup of the variety and the region in which it is grown. Once the characteristics of a particular variety are established, blending of multiple varieties of similar character can occur. Characteristics will include wet gluten content, extensibility, flour yield and other characteristics that vary between varieties.

⁵¹ Each year standards are subject to minor modification, not wholesale revision.

The National Agricultural Commodities Marketing Association (NACMA) is an organisation that most, if not all, prospective wheat exporters have membership of.

NACMA currently sets 'commodity standards' based on the existing AWB receival standards for the domestic wheat market. NACMA is capable of managing the development of wheat receival standards and can assume this role immediately.

A new organisation is not required to carry out this function.

5 Promotion of 'Australian Wheat'.

Some in the wheat industry are advocating the establishment of a grains industry equivalent of Meat and Livestock Australia, Dairy Australia, etc. or US Wheat Associates or the US Grains Council.

The industry development models employed in the dairy, horticulture and red meat industries include research and development and have been developed for commodities that differ significantly from grain, in their value chains, use and consumption.

US Wheat Associates and the US Grains Council are not models applicable to the Australian industry. These 'full service organisations are costly and a range of activities that are already catered for by existing organisations in Australia. They also assist with implementation of US Government Food Aid and Farm Bill policies⁵².

Factors that invalidate replication of these organisations in Australia include;

- Current industry capacity for delivery of services.
- The US wheat export business is regularly 30 MT or more PA, significantly larger than Australian wheat exports and capable of supporting large market development strategies and budgets.
- The structure of the Australian industry is different, with a history and culture which precludes the type of 'cooperative' cross value chain approach required under the US model.
- The relationship between the Government and industry is markedly different, as are most of the underlying policies on trade facilitation (US Food Aid) and industry support (via the Farm Bill).

It also has to be appreciated that marketers / exporters are the legal owners of wheat sold in the domestic and international markets. Grain producers lose ownership of wheat when it is sold for cash or to a pool. They play no role in the logistics of accumulating and exporting wheat, determining the commercial terms under which wheat is sold or interacting with customers.

Given the clear ownership of exported wheat, market development and promotion are clearly commercial activities that should be managed through the relationship between the commodity buyer and seller.

The grains industry should be allowed to focus on appropriate and efficient service delivery that meets the needs of customers, rather than seeking to replicate a structure from another industry or another country for political or ideological ends.

6 Technical Market Support and Wheat R&D.

AWB, as the sole exporter of bulk wheat, carried out a number of 'in-market' technical product and customer support activities, including;

- How to assess the quality of different wheat grades and flours,

⁵² Both organisations act as an 'arm' of Government in certain contexts – trade promotion and food aid – and as a consequence receive significant direct contributions from Government.

- The suitability of different Australian wheat grades for particular end products,
- The advantages of Australian wheat compared with that offered by other suppliers; and,
- How to process Australian wheat to meet a customer's particular downstream product requirements.

These are often confused with 'promotion' of the Australian wheat industry, when in fact they are customer relationship management activities.

Exporters of containerised wheat, bulk barley, pulses and oilseeds from Australia support their customers with similar CRM programs and technical support.

Any new entrants to the bulk wheat export market will establish their own technical support capability, or contract technical services from a commercial provider, either in Australia or in the markets in which they operate.

In Australia there are a number of commercial service providers, including BRI Research⁵³ and Agrifood Technology⁵⁴, working with the domestic milling industry and with international wheat consumers. These and similar organisations currently support containerised wheat exports and other bulk grain, pulse and oilseed exports.

There is no need for any duplication of the existing technical and service capacity.

7 Australian crop report.

The Australian Crop Report⁵⁵ is produced by AWB as a marketing tool and describes in broad terms the characteristics of Australian wheat. The report also provides some background information on the wheat industry in general. As the sole exporter of bulk wheat from Australia, AWB produced the report as part of its promotional and CRM initiatives, not as an 'industry good' function.

It is arguable whether such a report would have any value or relevance in a market with multiple exporters. Resources should not be allocated to producing an Australian crop report simply because one was 'produced in the past'.

If such a report is considered to be of commercial benefit, a commercial operator may decide to produce one. Alternatively, the industry may agree to produce a generic crop report as part of its research and development undertaking.

8 Industry strategic planning.

The grains industry has a long history of strategic planning and a dubious record of implementing the key recommendations⁵⁶ of these plans. Over the last 15 years, more than \$10 million⁵⁷ has been spent through the GRDC on strategic plans.

AWB paid the Boston Consult Group several million dollars in 2003/04 for the preparation of the 'Shaping the Future' strategy. AWB deducted up to \$10 million PA⁵⁸ from the national pool for 'implementation' of the strategy, with little obvious result for the industry as a whole.

The worth of generic 'industry strategic planning' should be questioned. Initiatives may be developed in a strategic plan and promoted to industry as being 'appropriate', but unless

⁵³ <http://www.bri.com.au/index.php>

⁵⁴ <http://www.agrifood.com.au/html/index.html>

⁵⁵ <http://www.awb.com.au/customers/awbcroreport/AWBCroreport0304.htm>

⁵⁶ The recommendations of significance implemented from the Grains 2000 strategic plan were those that related to the formation of the Australian Oilseeds Federation and Pulse Australia.

⁵⁷ The 'Grains 2000' initiative of 1992, the Strategic Planning Units of 1996 and the Single Vision project of 2004.

⁵⁸ The Growers Report 2007, Export Wheat Commission, December 2007, Pg 18.

there is a clear 'reward signal'⁵⁹ for value chain participants, particularly growers, then such initiatives have very little chance of adoption.

The best strategic signals for the industry, in particular the production sector, are those that come from the market. Having multiple exporters of bulk wheat from Australia will guarantee that clearer signals will be communicated back to the whole of the value chain.

There is no need to create a specific wheat industry 'strategic planning' capability.

9 Crop shaping.

Price signals are used to encourage growers to produce particular varieties of wheat in certain areas and to reward growers for producing wheat of higher than average quality. Existing matrices that reward growers for variety and quality include 'AWB Golden Rewards'⁶⁰ and 'Premium Choice Varieties' both of which provide price signals that help 'shape' the crop.

Growers will continue to be offered pricing matrices to 'reward' them for specific quality and variety parameters. Greater competition for the purchase of wheat from growers will naturally lead to an increase in the range and frequency of price signals, leading to better linkages between growers and the market.

A new organisation is not needed to develop pricing signals, as these will emerge from the new more competitive market.

Role of the new regulator in 'Industry Good' functions.

It is anticipated that the new wheat export regulator will function in a similar way to the regulator of the barley exporter licensing scheme in South Australia. The new regulator should focus on compliance and be structured as a 'low cost' regulatory process, mirroring the regulatory function undertaken by the Essential Services Commission of South Australia (ESCOSA) for the export of barley from that state.

It is strongly argued that the cost of regulation should be brought down from over \$3 million PA spent on the Export Wheat Commission to under \$500,000 PA. This may preclude the formation of a separate statutory regulator, requiring the regulatory function to be contained within an existing Government department.

The Government will come under considerable pressure to 'load up' the new regulator with additional functions such as 'industry good' activities. This pressure should be resisted, as there is no role for the new regulator to undertake any of the activities described as 'industry good'.

Trade data reporting.

The new regulator should not become a trade data⁶¹ collection agency, nor should reporting of 'trade data' be made compulsory under a new regulatory system.

The trade (principally potential new wheat exporters) will work cooperatively with industry stakeholders to address the matter of 'market transparency'.

A process that will significantly increase market transparency through the regular public reporting of trade data and market signals should be operational by the proposed introduction of the new wheat export regulations on 1 July 2008.

⁵⁹ A 'reward signal' would constitute a financial gain from adoption of a new practice, process or technology. The reward would accrue as additional net income, reduction in costs, increase in efficiency, etc.

⁶⁰ <http://www.awb.com.au/growers/nationalpool/goldenrewardscurrentseason/>

⁶¹ Trade data includes purchases and sales of wheat, export shipping and grain stocks.

An industry good / R&D organisation?

It is not appropriate to consider the GRDC as a vehicle for either funding or managing 'industry good' functions, where those functions directly relate to the commercial relationship between an export marketer and a customer.

The GRDC should continue to focus on increasing total factor productivity in the production sector and ensuring that its R&D strategy is appropriately informed with feedback from the commercial sector.

Minimising the intervention of Government or statutory organisations in commercial activities would be welcomed by an industry that has been over regulated for too long.

Future of the Export Wheat Commission

The primary function of the Export Wheat Commission (EWC) is to retrospectively report on the management of the export monopoly and the monopoly wheat export pool.

The reforms to be implemented by the Government will remove the monopoly and the role the EWC plays in monitoring containerised wheat exports, thus leaving the EWC with no further role to play in the industry.

It is recommended that the operations of the Export Wheat Commission cease with the introduction of the new regulatory regime on 1 July 2008.

If the EWC ceases operations at this time it will not have an opportunity to report on the 2007/08 monopoly pool performance. A report delivered late 2008 or early 2009 on the 2007/08 export pool will be of questionable value to pool participants, given that all financial matters relating to the pool will have been finalised and the monopoly will no longer exist.

The additional cost of keeping the EWC functioning for the production of such a report cannot be justified. By taking this action, the Government can save growers up to \$3 million or more per year.

Summary

On the basis of the arguments presented in this paper, there is no sound rationale for the formation of a new organisation to undertake 'industry good' functions.

The purported 'industry good' functions carried out by AWB were almost exclusively activities that any exporter will implement as key elements of a commercial customer relationship management program, focusing on supporting their product in the market.

In its 2007 Growers Report⁶², the Export Wheat Commission notes that from 2006 'industry good' expenditure had been significantly reduced, with expenditure effectively ceasing in 2007/08.

Since the privatisation of the Australian Wheat Board, AWB Ltd. significantly reduced 'industry good' spending to reflect international commercial practice. As a result, AWB often *did no more* to support its product than other companies selling wheat on the world market.

Many of the groups now discussing industry good activities are actually seeking a role of influence and a platform from which they can exercise control for their own political agendas, rather than advancement of the interests of the industry.

The nature of the wheat / grains industry means that any independent 'industry good' organisation formed as a response to regulatory reform would quickly become politicised.

The politicisation of industry development organisations in other industries by State Farming Organisations should be a warning to the grains industry.

⁶² The Growers Report 2007, Export Wheat Commission, December 2007, Pg 20.

The Government should, as a matter of principle, avoid allowing politics to continue to dominate the industry. Removing the export monopoly is a major advancement in this regard.

If, after a period of time, it emerges that an organisation is required for international promotion of the Australian wheat or grains industry, or for coordination of 'common good' initiatives, the industry is mature and well resourced enough to address these matters independently of Government, on an 'as needed' basis.

Leaving what are essentially commercial functions to the commercial sector is the course of action recommended to the Government.

Pro Reform Grains Industry Commentary – Wheat08.

The Grains Policy Institute produced the 'Wheat08 Commentary' between September 10th and December 12th 2007.

The aim of the commentary was to balance the pro-monopoly rhetoric that was promulgated by the member organisations of WEMA and WEMA itself.

Pro-monopoly rhetoric had gone unchallenged and unquestioned for many years, with a compliant media willing to simply reprint or broadcast propaganda that supported a range of factually incorrect assertions about the benefits of the wheat monopoly.

Most of the pro-monopoly rhetoric was produced by AWB and extended by groups fostered by the company.

Post privatisation of the Australian Wheat Board, AWB Limited invested heavily in creating its own 'agri-political' support base, the 'roundtable' and the 'AWB consult groups'.

The primary objective of these groups was to support the continued management of the monopoly by AWB.

These groups, consisting of approximately 1000 growers, were feted by an AWB publicity budget that was funded from the pool management fee charged against the export wheat pool. Expenditure on these activities by AWB averaged close to \$10 million PA.

AWB was successful in 'capturing' the policy of the former Federal Government, in the process creating the environment where abuse of the monopoly (Wheat for Weapons scandal) could take place.

The Wheat08 commentary sought to;

- Challenge the common perceptions of the export monopoly with factual information,
- Balance the rhetoric from the WEMA,
- Strongly question, from a commercial perspective, the proposals for a grower owned and controlled single desk and WEMA's proposal for a return to compulsory acquisition,
- Promote an alternative to the heavy hand of regulation supported by the groups that represent only 15% of Australian grain growers.

Wheat08 commentary was finalised in December after the federal election. The new Government had been elected on a policy platform that included removal of the wheat export monopoly. This meant the WEMA proposal was not going to be implemented.

The GPI then focused on matters relating to the implementation of the Government's proposed regulatory reforms.

Wheat08.com

Commentary Promoting Choice for the Wheat Export System - #1 September 10th 2007

What is the WEMA?

WEMA stands for the Wheat Export Marketing Alliance and its members are lobby groups - AgForce (Queensland), NSW Farmers Association, Victorian Farmers Federation, South Australian Farmers Federation, Western Australian Farmers and the Wheat Growers Association (Western Australia).

Does the WEMA really represent Australia's wheat growers?

Collectively, these groups represent around 1 in 5 of Australia's grain growers. The members of these lobby groups are predominantly small to medium sized grain producers who collectively produce an estimated 15% of the total Australian wheat crop.

The simple fact that the members of the WEMA represent only 1 in 5 grain growers and approximately 15% of wheat produced in any one year is a major hurdle to acceptance of the WEMA proposals. If WEMA is successful in convincing the Federal Government to hand it the single desk, it will mean that growers who produce 85% are having policies imposed upon them by a numeric and commercial minority.

Is this fair?

The priorities of small wheat producers are different to those of the mainstay of the industry; the large growers. Larger growers have major capital investments in land and equipment and have to maximise returns to survive commercially. Smaller farmers are often supported by off farm income and as such are not as commercially focused as larger growers.

The most efficient and largest wheat producers are located in the growing regions that are heavily reliant on exports. The current wheat export monopoly costs the export dependent states of WA and SA up to \$160 million (in an average crop year). They are, effectively, subsidising smaller wheat growers in other States through their payments to AWB as the holder of the single desk.

The wheat export monopoly "socialises" the efficiency gains and comparative advantage (such as geographic proximity to markets) and redistributes income to areas and growers who are not as efficient, innovative or close to markets.

Does the WEMA have the knowledge or experience to create a 'new single desk'?

The representatives driving the WEMA process are farmers, whose expertise is in growing grain, not exporting it or selling it to Australia's demanding international customers.

There is no practical experience of financial risk management or market analysis required to successfully sell \$3.5 billion of wheat, nor is there an adequate understanding of how the grain accumulation, storage and shipping supply chain operates.

What is the WEMA trying to achieve?

The members of the WEMA are trying to replicate AWB International (AWB I), with no money, no expertise and little legitimacy.

The AWB I business has been developed over many years and has established relationships, business systems, commercial contracts with suppliers and an established financial record. It is a business that manages up to \$3.5 billion in wheat exports,

Put simply, the WEMA is trying to resuscitate a system of compulsory acquisition that has become a liability for the industry. Even AWB has acknowledged that the wheat export monopoly is inappropriate, with the recent announcement that it will to wind up AWB I by the end of 2008.

If the WEMA is handed the single desk, the uncertainty created in the domestic and international market could be so severe that the wheat industry may shrink, as growers shift to other crops or out of grain production altogether. This could cost growers and rural Australians up to \$1 billion.

Wheat08.com

Commentary Promoting Choice for the Wheat Export System - #2 September 12th 2007

AWB finally declares wheat monopoly over

The public announcement on September 5th by AWB Limited that it would wind up its wholly owned wheat monopoly manager subsidiary, signals the abandonment of the single desk by its current manager.

AWB's announcement that it would wind up AWB International next year sends a strong signal that the days of monopoly export of wheat have come to an end.

The move by AWB confirms what many in the industry have known for some time; that AWB saw its future as a provider of a range of rural and financial services to farmers, rather than the manager of a wheat export monopoly.

AWB apparently believes it and its customers, growers, will become more profitable with the removal of the wheat export monopoly.

An historical perspective

Formed by the United Australia Party in 1939 as part of the Commonwealth Wartime Powers to manage the supply of wheat and flour for the war, the wheat export monopoly has clearly outlived its original and subsequent purpose.

When the old Australian Wheat Board was privatised in 1999 (using over \$600 million dollars of wheat growers' taxation from the Wheat Industry Fund) the Booze Allen Hamilton (BAH) report from 1995 was used to form the company structure.

It is interesting to note that the BAH report valued the wheat export monopoly at an average of AUD \$2 / T and that this benefit would disappear once the reforms of the Uruguay GATT round were implemented. These reforms have now been implemented.

Other key factors that were included in the transformation of the Wheat Board were an understanding that the 2004 Review of Wheat Marketing would be a thorough investigation into the continued need for an export monopoly. When it came, the actual review was a watered down imitation of what was originally envisaged. The original change to the Wheat Board also envisaged privatisation as a transition to removal of the monopoly, rather than a permanent arrangement.

Unfair and unjust

The monopoly continues to stifle the growth of domestic grain consumption, which is a more profitable market for east coast growers. Because wheat is the dominant grain crop in Australia, the export monopoly now thoroughly corrupts the market signals across the whole of the Australian grains industry. The way in which AWB estimates wheat returns drags down cash prices by up to \$15 / T (equating to \$330 million on production of 22 million tonnes of wheat).

The pooling practices of AWB transfer up to \$160 million from the export dependant states of WA and SA to Queensland, NSW and Victoria, costing the average grower in WA and SA close to \$20,000 each per year.

Political hijacking

Rather than a system that helps wheat growers to mitigate risk and earn more, the single desk has become a political vehicle for state farming organisations desperate to retain a dwindling membership base, political parties and self interested individuals.

There are strong linkages between some AWB board members, the state farming organisations, previous members of the Grains Council and the National Party. This policy elite has hijacked the original intention of the Wheat Board privatisation.

It's time for the wheat export monopoly to go. Even AWB has publicly come to this conclusion. If the current manager of the system thinks it needs to be replaced, that's a pretty strong message to our politicians and policy makers.

AWB 07/08 Services Agreement – the Sting is in the Tail

The 31st August 2007 AWB International National Pool Service Agreement with AWB Services Ltd. is an overdue advancement by AWB in transparency. But why did it take a US\$290 million international bribery scandal and a Commission of Inquiry that cost both AWB and taxpayers tens of millions of dollars, to force AWB to meet this minimum standard of public accountability?

Prior to now, the National Pool Services Agreement has been cloaked in mystery and secrecy. The public release of the new Services Agreement is a victory for those in the industry who have been calling for AWB to act in a more accountable manner.

It wasn't until early 2006 that pool participants were told there was a multimillion dollar 'break fee' they were liable for should the Agreement be altered or terminated. A break fee had been in place since 1999; neither AWB nor the Wheat Export Authority (WEA) disclosed this to pool participants.

Why was the break fee not disclosed? Individuals and companies faced a liability worth tens of millions and they were not informed. The answer lies in the relationships that exist between so-called grower representatives, AWB and self interested political elites.

The Grains Council of Australia was the whistle blower on the break fee, an action that was unpopular with AWB and the pro AWB political elite. The action of GCA precipitated an investigation by the WEA and has led directly to the removal of the break fee from the new Agreement.

Following the investigation by the WEA, evidence presented to Senate Estimates showed that AWB had changed its Service Agreement but had not correctly notified the WEA of the changes, which it was legally required to do. The fact that the Government allowed AWB to manage a monopoly imposed by law in such a secretive manner, speaks volumes for the politics surrounding the export monopoly.

Disclosure doesn't mean Transparency

The new Agreement sets out a timetable for the demise of AWB International and the departure of AWB from the management of the wheat export monopoly. Section 3.1 of the Agreement schedules 30th April 2009 as the final closing date for the 07/08 National Pool. Parties critical of AWB can only hope that the announcement on the structure of the company is more factual than those related to the ill-fated and aborted AWB International de-merger fiasco.

Section 3.3 shows the Agreement will be in place until 30th September 2008, at the cost to pool participants of either \$35.5 million or \$4/T (whichever is higher), plus \$1/T for contracts for supply of wheat made with AWB prior to 31 October 2007.

If 70% of Australian wheat growers support the monopoly and AWB, we can expect to see 6 or more million tonnes committed to AWB by the end of October. Will AWB disclose these forward commitments?

The 'sting' for growers will be delivered after 30th September 2008. There is an additional \$3.5 million to be paid to AWB I for 'management costs' and a range of unquantified liabilities due to AWB Services for 'costs incurred to third parties', 'residual exposure for contracts – including for services provided under any previous service agreement', a 'pool finalisation' fee that includes costs related to AWB Services ceasing to be the services provider, and the cost of winding up AWB I.

All of these costs will be additional to the \$35.5 million pool management fee. What this means is that 07/08 pool participants, from October '07 to April '08, will be slugged with a monthly invoice via AWB I for these additional, unquantified costs.

While the new Services Agreement eliminates the previous 'break fee', the effect of section 3.5 of the Agreement *is the same as having a break fee* – only this time the figure is not defined.

What are the odds that the cost of closing down AWB's management of the export monopoly ends up being greater than the old break fee?

It's a positive move by AWB to release some details, but there is still a lot about the National Pool Services Agreement that is not transparent. This should cause growers and other pool participants to think very carefully about the nature of their financial exposure to AWB for the 07/08 crop.

Wheat08.com

Commentary Promoting Freedom of Choice for the Wheat Export System - #4 September 2007

The true cost of the AWB monopoly

The recent confirmation by AWB that it will not run a national wheat export pool after the 2007/08 harvest was accompanied by the release of details of the National Pool Services Agreement between AWB International and AWB Services. The new Agreement is notable for the following;

1. The base fee of \$35.5 million is for 12 months only, not for the life of the pool (normally 18 months),
2. After the end of the first year of the pool (1 October 2007 to 30 September 2008), pool participants will pay 'cost plus 20%' to the pool manager (AWB Services) for up to 7 months (the pool will be closed by 30th April 2009),
3. A new charge of \$3.5 million will be deducted from the pool to pay for AWB I; and,
4. None of the 'pool finalisation' costs and possible liabilities that will be carried by pool participants is quantified in the Agreement.

Costs - What we know and what we can assume

Given the uncertainty created by the new Services Agreement and in the absence of clarity from AWB, it is reasonable to estimate the charges that AWB will levy on pool participants for the *full duration and finalisation* of the last AWB National Pool.

Under the new Services Agreement, AWB Services will be paid \$35.5 million for managing the National Pool for 1 year – a cost per month of \$2.958 million.

The Services Agreement states that for each additional month after this first year, AWB Services will be paid cost (\$2.958 million per month) plus 20%, a total of \$3.55 million per month, up until the end of April 2009, for a total additional management fee of \$24.58 million.

Therefore, the total actual base fee for managing the 2007/08 National Pool over a 'normal' 18 months will be approximately **\$63 million** (inclusive of the \$3.5 million charge to run AWB International).

Finalising the Pool – What will it cost?

The break fee in previous Service Agreements has been removed, but the liabilities the break fee was calculated to cover still exist and are listed in the Agreement (Section 3.5).

AWB has publicly stated that the break fee of **\$40 million** was required to meet the cost of 'finalising the business of the National Pool and AWB International'. It's reasonable to accept that AWB's own estimate of meeting these liabilities is accurate.

Thus it can be assumed that the potential cost for finalising AWB's management of the wheat export monopoly will be **\$63 + \$40** – or approximately **\$103 million**.

Based on this total and estimating 7 MT wheat consumed / retained for domestic use;

Total Est. crop (MT)	Approx. Export Pool (MT)	Pool Management Fee / T
15	8	\$12.98
13	6	\$17.31
11	4 (Equiv to 2006/07 export pool)	\$25.96
9.5 (Equiv to 2006/07 crop)	2.5	\$41.54

Supporters of the export monopoly claim a 'premium' for Australian wheat is earned in the international market by the monopoly. This is the main justification for the Government's policy. In 2006, the Wheat Export Authority estimated this 'premium' to be \$0.80/T for AH.

Subtracting this 'monopoly premium' from the figures above doesn't make for better reading, particularly as the drought reasserts its grip across most wheat growing areas and the crops yield potential shrinks.

Wheat08.com

Commentary Promoting Reform of the Wheat Export Monopoly - #5 - September 2007

WEMA - a "Titanic Re-enactment"?

Wheat producers across Australia are being asked to donate money to the state farming organisations that constitute the WEMA, so this group can pursue its dream of turning the wheat industry's regulatory clock back to pre-1988.

The robustness of the Australian economy is largely the result of several decades of economic reform and the WEMA plan to re-regulate the wheat industry threatens to take growers back to the dark ages of compulsory acquisition and centralised control.

Like the owners of the Titanic, WEMA is promoting its wheat export model as 'unsinkable' and also capable of solving all of the wheat industry's problems in one fell swoop. Unfortunately the arguments put in support of the WEMA approach demonstrate a fundamental misunderstanding of today's domestic and international grain markets.

Send WEMA your money...

In seeking to recreate the single desk monopoly, WEMA is asking growers to donate their cash toward a re-enactment of the maiden voyage of the Titanic.

Growers paid over \$600 million, via the 1990's Wheat Industry Fund, for a privatised Australian Wheat Board. Since privatisation, AWB Ltd. has been shifting tens of millions of dollars from growers' pockets to those of other shareholders.

With the news that AWB has advised the ASX it will be winding up its AWB International subsidiary some time in 2008, the failed 'AWB Titanic' voyage is just about over. The AWB Titanic sank after it ran into the Cole Commission iceberg. Unfortunately, the WEMA is now asking growers to dip into their pockets *again* to build *another* 'titanic monopoly' that promises to be just as bad as the one that preceded it – if not worse.

But this time it *will* be different...trust us.

A recent press release by one of the WEMA members, referring directly to the newly released AWB Services Agreement, stated that the AWB pool costs for 2007/08 were a "...disgraceful sham".

This release adroitly pointed out the problems associated with monopolies; lack of transparency, lack of consultation, high costs and no competition for services. Add to this; control of market signals, no competitive discipline, stifling of innovation and manipulation of information to suit the commercial ends of the monopolist and you have the full suite of monopolistic behaviour.

Strangely, members of the WEMA are now advising growers not to sell their wheat to AWB. In other words, they are actively promoting a boycott of a monopoly they wish to re-create!

The members of the WEMA believe problems with the current monopoly can be avoided if it's run by a 'grower owned and controlled' company. This apparently will 'guarantee' that it won't act like AWB.

But the Australian Wheat Board was controlled by growers via its grower elected Directors. AWB Ltd was also majority owned by growers and thus controlled by them. According to some in the industry, AWB is still effectively controlled by growers, via the A class shareholder elected Directors.

Growers didn't 'lose' majority ownership of AWB, they sold their shares in the company. It's a simple fact that the majority of growers place their own financial interests over political catch cries like 'grower ownership and control'. Increasingly growers are starting to understand that *state farming organisation and party politics* is behind the 'single desk' debate, not commercial or economic reality.

Grower ownership and control is not the problem – it's the monopoly itself and the behaviour exhibited by all monopolies, regardless of 'ownership' or management.

An export monopoly and the 'national pool' simply cost growers too much. AWB's own national pool accounts show that between 2001 and 2005, national pool expenses were \$5.5 billion, incurred selling 58.62 million tonnes, an average cost of \$93.82 / T.

Pro-monopolists don't have sound arguments or logic to back up them up; all they offer is emotion, scare tactics and politics. Unfortunately, emotion and politics don't pay growers' bills.

Wheat08.com

Commentary Promoting Choice for the Wheat Export System - #6 September 2007

Analysis of the WEMA "Australian Wheat Limited" Business Plan*

- At the time of writing, Australia Wheat Limited is a reserved business name, not a registered company.
- The purpose of the AusWheat plan is to secure \$6.85 million from the Federal Government - a similar application for \$7 million was refused in August.
- The Government funding is needed to carry the AusWheat proposal through until March 08.
- AusWheat would be an unlisted company that would operate as a 'cooperative'.
- The 'owners' of AusWheat will be grain growers who will also be suppliers to the company. This conflict perpetuates the conflict of interest that exists today within AWB.
- 'Non-growers' (that is grain traders) will be prohibited from being members of the AusWheat. Traders who buy wheat from growers now sell *more* wheat to the pool than growers do. (Ref. WEA).
- The Plan contains no estimate of any set up costs, which have been independently estimated at between \$40 million to \$60 million.
- AusWheat will charge \$35 to \$45 million PA to run their pool - effectively the same 'base fee' charged by AWB, calculated on an average pool size of 14 MT. There is no explanation of how this base fee would be adjusted when exports fall below, or go above, 14 MT.
- No income will be generated by the company for most of its first year. AusWheat could carry up to \$100 million of debt (including initial wheat purchases) into 2009. Any debt risk will be borne by pool participants who are unsecured creditors.
- AusWheat will fund its activities by withholding up to 1/3 of the gross value of the pool or up to 1/2 of the net value of a pool to fund expenses; *"...AusWheat has no capital requirement to fund inventory. Growers (and other pool participants) provide inventory at no cost to the company and bear the cash flow impact of receiving deferred progressive payments."*
- WEMA states that *"...An important function of the Single Desk is to provide a market structure in which there is only one buyer"*. This is a telling statement and reveals the true intentions of WEMA - to return to compulsory acquisition of all wheat grown in Australia.
- WEMA has acknowledged that it intends to internationally market billions of dollars of wheat without knowing who the current customers are.
- WEMA say *"AusWheat will be the exclusive sole manager and marketer of the export of bulk wheat from Australia under the Wheat Marketing Act..."*. However later in the Plan it's proposed that AusWheat will act as a 'licensing authority', a role not provided for in the Wheat Marketing Act.
- AusWheat will hedge up to "fifty percent of exposure at point of harvest", assuming an average export pool of 14 million tonnes. No analysis of the appropriateness of this strategy is provided, nor is there a discussion of the risks and rewards from such a strategy.
- The Plan states *"...AusWheat would ensure that Australian wheat would not compete against Australian wheat"*. This assumes that wheat traders will sell wheat on price alone. Growers don't sell to the lowest offer from traders, so why would traders sell to the lowest offer from wheat consumers?
- AusWheat proposes to do away with the current Pool Trust. By removing the trust arrangement, the AusWheat Pool will be *less* secure.
- AusWheat will shift pool profits and losses from one pool to another.
- AusWheat will not have the asset backing of AWB Ltd, a factor that will increase finance costs.

* WEMA Business Plan - September 2007, WEA Growers report - 2005, 2006, ACIL Tasman - 2007, AWB 2007/08 Services Agreement - September 2007, AWB public releases on National Pool trusts - September 2006, unpublished research - September 2007.

Wheat08.com

Commentary Promoting Reform of the Wheat Export Monopoly - #7 October 2007

Well done, AWB

The AWB Public Announcement issued on 1 October ¹ heralds a welcome increase in Estimated Pool Returns (EPR) for 2007 / 08 *and* major revisions to the Services Agreement between AWB International and AWB Services.

The increase in the EPRs for the 2007/08 pool will come as a relief to growers who have been questioning the disparity between global prices and the Australian pre-harvest pool estimates. While the EPR is an *estimate* of the pool return and is subject to change, the prices now being offered bring the *estimated return* more into line with global prices, offering close to 'full value' for pool participants.

The decision by AWB to scrap its out performance incentives (OPI) ² has contributed to the pool estimates representing better value. The OPI calculations allowed AWB to propose a low EPR, in the knowledge or hope that the pool would significantly 'out perform' its own benchmark.

Eliminating the complexity of the OPI and the 'hurdle rate' has enabled AWB to propose a more transparent EPR, allowing growers on both sides of the country to make better marketing decisions.

The lift in EPRs and the decision to restructure the 31 August Services Agreement is the latest indication that AWB is positioning itself as a trader and exporter of wheat in a post monopoly industry.

A sign of things to come?

AWB's actions in revising its Services Agreement and EPRs provide a tangible example of how the industry will operate when the monopoly is abolished. There will be a closer and more transparent link between the global price and the domestic Australian price, allowing growers and traders, particularly in the export dominated west, to take full advantage of their proximity to markets.

For example, the figure of 2.6% quoted as the cost of pool management is getting closer to the industry benchmark of 1.75%.

The decision by AWB to scrap the OPI and reduce the up-front pool management fee, show how competition will place downward pressure on the cost of marketing and related services.

A big improvement but...

This year (2007/08) will be the last monopoly export pool managed by AWB ² and as such there are special circumstances governing the management of the 2007/08 pool.

Statements that "...provisions in the AWB International balance sheet will need to be realised over the life of the pool..." and "...settlement of claims by and against third parties, direct costs, and provisions and other outstanding claims...", will still, rightly, cause some to question what the *final* 2007/08 pool finalisation cost will be.

It is reasonable to expect AWB to disclose *all matters* on its balance sheet(s) and *all matters* that relate to fees and charges that *may or may not* be charged to pool participants. This will ensure that *all potential liabilities* are disclosed at the commencement of the pool. Only then will growers be able to realistically compare the true cost of selling into the national pool with the costs of on-farm storage, sales to domestic buyers and the container market.

While *all* of the details of the finalisation of the AWB pool business in 2008 have not been quantified, the latest announcement by AWB is a major advancement on the 31 August Services Agreement.

Wrong Way WEMA

By positioning itself in the positive way it has, AWB has thrown yet more harsh light on the backward looking WEMA AusWheat ³ monopoly and compulsory acquisition plan proposing, as it does, a return to a single buyer, no transparency, minimal innovation and a return to higher costs.

AWB is providing a glimpse of a more competitive and dynamic market, where costs are lower and innovation, driven by multiple market participants, is the order of the day. Well done AWB!

1 - AWB Public Announcement 2007 - 67, 2 - AWB company announcement 3 September 2007, 3 - AusWheat Business Plan, <http://www.wheat08.com/Pages/SingleDesk.aspx>

Wheat08.com

Commentary Promoting Reform of the Wheat Export Monopoly - #8 October 2007

Policy Uncertainty = Infrastructure Chaos

Storing and handling Australia's grain crop is a complex and demanding task. Billions of dollars of infrastructure and complex logistical management systems are required to provide the vital grain accumulation and distribution network that links growers with domestic and international customers.

Today, a huge question mark hangs over the immediate future of rail transport, still the most efficient and sustainable method of transporting large quantities of grain. The urgent concern is not investment in rail infrastructure, which is an on-going problem, it's allocation of *current* resources and rail assets (rolling stock, track, labour, etc.) over the next 12 to 24 months.

The current wheat export policy uncertainty is jeopardising critical transport infrastructure and resource allocation decisions, particularly for this harvest. If policy clarity is not provided soon, the industry may face permanent loss of rail assets.

Once lost, the chances of the grain industry regaining assets for grain transportation at reasonable cost, decreases with every day the policy vacuum and uncertainty continues.

Allocation of rail assets for today and tomorrow

Rail transport providers require long term contractual commitments from grain companies to ensure rail assets are allocated in an efficient manner. Currently there is a standoff between rail transport providers and the major grain companies over these vital long term commitments.

This is the last year AWB will be managing the current wheat export monopoly¹. As such, AWB is not in a position to enter into long term contracts with rail transport providers.

Unfortunately, as the bulk handling companies (BHCs) role in the future structure of the wheat export sector is uncertain, they are not in a position to replace the long term contracts AWB *would have* signed with rail transport providers had AWB continued to manage the export monopoly.

Without a long term contractual commitment to the rail companies by the grain companies, the rail companies can't commit *their assets* to the transportation of grain. This standoff is exacerbated by the drought. The demand for rail freight will be low this harvest, compounding low demand for rail assets over recent drought affected years.

Competition for rail assets from the minerals sector will mean that rail companies, who are looking for a return on their assets, may shift them to more stable and less risky freight tasks.

Clarity needed now

The Government has chosen to rely on the WEMA, a group of state farmer organisations (SFOs), for its policy advice on the future of wheat exporting, while ignoring non-SFO aligned growers and the rest of the industry. The WEMA has no wheat export experience and minimal knowledge of managing storage and handling systems or transport assets. It is simply not credible for the Government to rely on the WEMA for policy direction, knowing that they want to turn the clock back to the days of compulsory acquisition and centralised control.

The Opposition is contributing to the policy vacuum by not enunciating a clear vision of how it, as the alternative Government, will deal with the wheat export policy shambles. The Opposition can no longer sit back and allow the uncertainty to continue.

On the eve of an election, the time has now come for both the Government and Opposition to *clearly* state the long term policy settings and vision for the wheat industry.

Both the Government and Opposition must have reform of the export monopoly as the basis of their wheat industry election policy, or together they will be responsible for the demise of the industry.

With the publication of a poll in The Land newspaper² showing only 2.1% of farmers are concerned about wheat marketing, there is a strong signal to both the Government and Opposition that embracing change and reforming the wheat export monopoly will not be an election liability. Policies that embrace reform will provide stability for an industry that is currently in limbo.

1 - AWB company announcement 3 September 2007, 2 - The Land, 4 October 2007 pg 6.

Wheat Monopoly Myths...The Significance of the Buyer of Last Resort

There has been a predictable reaction to the announcement by the Opposition of its new wheat marketing policy by the pro-monopoly lobby WEMA and the National Party. The new Labor policy marks the first move away from bi-partisan support for the wheat export monopoly since 1939. Labor, if elected to Government, would abolish the monopoly and replace it with an exporter accreditation system.

There is a great deal of misunderstanding about the 'buyer of last resort', how it operates and its significance. The spectre of losing the 'buyer of last resort' is a scare tactic trotted out by pro-monopolists who want to restrict growers' freedom and choice. In the Wheat Marketing Act Section 84 (1)⁶³ stipulates that the monopolist must "...purchase all wheat that:(a) is offered to the company for inclusion in a pool operated by the company; and (b) meets the standards required by the company.....and, (2) The purchase price must be calculated by reference to the net return for the pool in which the wheat is included".

Value?

While there is an obligation on the monopolist to purchase wheat offered to it, the wheat has to meet receival standards *and* the monopolist is not bound by the Act to offer full value to the seller.

Section 84 (2) of the Act states the purchase price of wheat offered to the monopolist is to be calculated by referring to the net return for a pool. But there's a catch - the pool return on offer at the time of sale is an *estimate*, so this provision cannot be relied upon as a guarantee of fairness.

In years where there are distressed sellers - that is years when a grower has wheat that meets receival standards but no market - the monopolist is free to offer what is really a heavily discounted pool price, sometimes up to \$30 or more below the main pool price.

The secondary pool also has the impact of depressing cash prices. As soon as a lower pool price is offered, cash prices adjust down to that level. So a buyer of last resort actually means lower pool estimates and lower cash prices.

How significant is the buyer of last resort?

The 'buyer of last resort' is a hang-over from the days of compulsory acquisition, when there was no competition for the purchase of wheat from growers. Over the last decade, competition for the purchase of wheat from growers has intensified. In the Eastern states, where most of the support for the buyer of last resort is located, the increase in domestic consumption is driving demand to the point where, in a 'normal' year, about one third of wheat grown in Queensland, NSW and Victoria collectively is destined for the export market.

For WA and SA growers who depend on exports, the international wheat market conditions are changing. Ethanol subsidies in the USA and the imposition of export taxes on wheat in Argentina and Russia are driving a shift away from wheat production to other crops. Increasing competition for the purchase of wheat from growers, by allowing more than one exporter to service international customers will remove the need for any kind of buyer of last resort.

Will removing the buyer of last resort matter?

In years when the harvest in Australia is 'big', (over 25 million tonnes) the secondary 'buyer of last resort' pool may account for as little as 2%⁶⁴ of the total volume of the crop. Increased on-farm storage, the willingness of traders and domestic consumers to buy and store grain, and the development in recent years of other marketing options, means that wheat growers are rarely, if ever, left without a market.

By raising the spectre of losing the 'buyer of last resort', the pro-monopoly lobby and the National Party is cynically attempting to scare growers into accepting a return to compulsory acquisition. The same people who opposed the removal of compulsory acquisition now want to bring it back. Don't be spooked by the monopolists' Bogey Man.

⁶³ Part 7, Section 84, Wheat Marketing Act 1989 as amended.

⁶⁴ Based on interviews with bulk handling and marketing companies.

Wheat08.com

Commentary Promoting Reform of the Wheat Export Monopoly - #10 October 2007

Election 2007 and the wheat industry

The outcome of the 2007 general election will have a major impact on the structure of the wheat industry and thus the whole of the grains industry. The choice appears to be a stark one between the new ALP policy that proposes the removal of the wheat monopoly, and the Coalition, which supports continuation of the monopoly, possibly through the WEMA / AusWheat proposal.

ALP policy

- The new ALP policy proposes the removal of the wheat monopoly, the power of veto and the Minister's powers to grant export consents.
- The export of wheat in containers and bags will remain un-regulated.
- The control of all bulk wheat exports will be placed in the hands of a new regulator.
- A prudential and financial performance based accreditation system will be introduced to assess the suitability of organisations to become bulk wheat exporters.
- Management of the accreditation scheme will be the primary role of the new regulator.

Coalition Policy

- Continuation of the wheat export monopoly and the power of veto⁶⁵, and support for the WEMA AusWheat proposal.
- The Minister's power to grant export consents continues until 30 June 2008.
- The export of wheat in containers and bags will remain un-regulated.
- By default, the current holder of the monopoly, AWB International, automatically becomes the 'designated company' holding the monopoly on 1 March 2008.
- The Minister has the power to designate a new company as the holder of the monopoly between 1 March and 30 June 2008.
- The Minister has the power to remove the designated company status from AWB I and not designate another company – thus ending the monopoly between 1 March and 30 June 2008.
- The Export Wheat Commission would continue its operations.

WEMA – AusWheat Proposal

- Continuation of the monopoly and the designation of AusWheat as the holder of the monopoly from 1 March 2008. AusWheat to hold the veto power from 1 July 2008⁶⁶.
- After July 2008 AusWheat pushes for amendments to the Wheat Marketing Act to allow it to act as a 'quasi regulator', enabling the company to appoint the 'export facilitators' noted in the WEMA business plan.

Future Scenarios - Introduction of Exporter Accreditation (ALP Policy)

- From harvest 2008 onward, competition for the purchase of wheat from growers would increase, along with an increase in selling options for growers, including new financial instruments.
- Pools will continue to be offered, along with a range of new 'pool like' financial options. Pools will continue to present an attractive risk management tool for wheat sellers (growers and traders) and pool product providers (grain traders, banks, etc).
- Wheat sellers will get better value for their product, as costs are minimised and prices better reflect global market equivalents.⁶⁷
- Domestic and export customers will receive higher service levels as competition for business intensifies, with the focus shifting from basic commodity / price transactions to more sophisticated supplier / customer relationships.

⁶⁵ Post June 2008, the company designated as the holder of the monopoly will gain the power of veto when the Minister's special powers sunset, unless that company is AWB International or another AWB subsidiary – any entity owned or controlled by AWB is prevented by S. 57 3 (c) from holding the veto power.

⁶⁶ The Minister's powers under the Wheat Marketing Act continues until 30 June 2008, whereupon the veto transfers to the new designated company.

⁶⁷ Recent experience with the AWB 2007/08 pool validates this observation.

- Logistic chain providers are likely to be forced to reduce costs and become more innovative.
- Transaction costs will be forced down to an industry benchmark of 1.75% or lower as organisations compete for growers' business.
- Market penetration in existing markets will increase as multiple vendors supply Australian wheat to multiple customers in markets where only one customer is currently served.
- Domestic customers will seek to develop more stable / closer relationships with suppliers (including groups of growers) as a reaction to greater internal competition for wheat purchase.
- Areas in WA and SA with a geographic advantage will directly benefit immediately, as their freight advantage is returned directly to them and not used to cross subsidise other pool participants.
- Strong market signals will emerge in Qld, NSW and Vic. An increased focus on the domestic market will develop due to higher net returns on offer, compared with the export market.
- This will drive a shift in the proportion of wheat to other crops – less milling wheat, more cereals for 'energy' inputs to livestock, more coarse grains, pulses and oilseeds.
- This East Coast production shift will increase the attractiveness of investment in and expansion of feed lotting, dairy production and other intensive livestock production.
- Exports will rapidly shift away from bulk commodity varieties to higher value PH, H, APW and Durum, accessing higher value markets via the container trade.⁶⁸

The result of these changes is likely to be an increase in net returns for growers in both the export oriented states and in the domestic market focused states.

Future Scenarios - Continuation of the Monopoly and AusWheat (Coalition Policy)

- The clear aim of WEMA is to eliminate competition for the purchase of wheat from growers and for there to be only 'one buyer of wheat'.⁶⁹ As such, AusWheat will require amendments to the Wheat Marketing Act that would compel all wheat sold in Australia to pass through its national pool.
- This will lead to the collapse of competition in the domestic market and return the industry to compulsory acquisition of wheat by AusWheat.
- Traders and marketers would either dramatically scale back their wheat purchases or not purchase wheat at all, leaving growers with few, if any, marketing choices.
- The availability of risk management and financial options and innovation in this area would also decline, leaving growers to shoulder all price and credit risk through the AusWheat national pool.
- Transaction costs will be uncontrolled by competition and will, as a consequence, rise in real terms.
- The actual cost of the AusWheat pool to growers will be higher as the grower will be carrying pool debt longer and will be directly incurring higher finance costs through interest and charges.⁷⁰
- This re-regulation of the wheat market will send a very strong financial signal, leading growers to seek crops that provide lower actual transaction costs and higher real net returns per hectare.
- The current structural weaknesses in the wheat / grains industry will intensify – monopoly inefficiencies will be magnified as investment capital moves out of infrastructure, innovation and efficiency to areas of higher return.
- As a result, the size of the wheat crop will reduce to a point where the export surplus will not exceed 8 MT PA, well below the 14 MT estimated by WEMA. There is no allowance in the AusWheat Business Plan for adjustments in the size of the crop or the impact of climate change.
- This will have a compounding effect on the domestic consumption sector, where uncertainty and lack of transparent positive market signals will make investment risk higher. The flow on effect will be a reduction in beef and dairy exports and a stall in the growth of these 2 sectors.
- Retention of the wheat export monopoly and introduction of AusWheat would eliminate the positive diversification and regional specialisation that would quickly emerge following the removal of the redistribution effect of the national pool.

Retention of the monopoly (Coalition policy) or the introduction of AusWheat (WEMA policy) is likely to send the wheat industry into decline, with negative flow-on effects for exports and regional economies.

⁶⁸ This trend has already commenced with penetration of the Japanese market for higher value hard wheat varieties, earning significantly higher prices per tonne than bulk wheat shipments.

⁶⁹ AusWheat Business Plan, October 2007, pp. 16.

⁷⁰ The length and performance of the recently completed 2005/06 pool is a relevant example of the validity of this observation.

Wheat08.com

Commentary Promoting Reform of the Wheat Export Monopoly - #11 - October 2007

70% Grower Support?

Supporters of the wheat export monopoly have a catch cry - "we have to keep the single desk because 70% of growers support it".

But do they? There is a lot of evidence to suggest that 70% of growers don't actually support the wheat monopoly - that figure is yet another monopoly myth.

It's clear from examining the selling preferences of growers that they don't support the national pool. In 2005/06 growers sold 2 out of every 3 tonnes harvested *outside* the national pool. In 2006/07 growers sold 7 out of every 8 tonnes harvested *outside* the national pool.

The "70% support" myth is based on two surveys carried out in early 2007. One was a survey conducted by pro monopolist MP, Tony Windsor (New England NSW) and the other was the consultation process (meetings and submissions) run on behalf of the Government by John Ralph.

Neither survey was conducted in a manner that embraced sound sampling methodologies or measures that ensured the statistical integrity of the results.

As a result, neither survey can be considered as a sound platform for important policy decisions, particularly those that will determine the future of a multibillion dollar export industry. The Ralph Report has never been released by the Government, but both surveys received considerable coverage by an unquestioning media.

There's a rule in politics - if something is repeated often enough it becomes 'the truth'. Remember the urban myth about the alligators in New York's sewers? There are similarities here...

What is the real level of support?

On closer analysis, these surveys present results that are quite different from those that have been popularised by the supporters of the monopoly.

Both surveys were "self selecting" and represent those with strong views only. There was no mechanism to balance the self selection bias or to provide a representative demographic or geographic sample. As a result both of the surveys are 'unreliable'.

The fact that only 1 in 10 growers chose to participate in both the Windsor and Ralph surveys is an important point.

It clearly indicates that 9 out of every 10 growers (90%) *didn't feel strongly* enough about the single desk issue to participate, by filling out a survey, writing a letter or attending a meeting.

So what is the real level of support?

Both the Windsor and Ralph surveys tell us that 70% of the people who selected themselves to participate in the survey process support the monopoly and 30% don't.

Using the flawed Windsor and Ralph surveys, the results show that, in raw number terms, about 2,100 growers out of 30 000, or approximately 7% support the single desk, 3% oppose it and 90% don't care.

The Rural Press published a relevant survey in *The Land*⁷¹ that found only 2.1% of farmers listed wheat marketing as an important issue to them. Approximately 1 in 3⁷² Australian farmers produce grain, so the figure of 2.1% can be tripled to represent a survey of grain producers rather than of all farmers.

On that basis the figure of 7% support for the single desk is validated by the Rural Press survey. The claim that '70% of growers support the single desk' is another monopoly myth, just like the importance of the 'buyer of last resort' or the 'Australian wheat competing against Australian wheat' argument.

The next time you hear someone say "...70% of growers support the single desk", knock off a zero and then the figure will be about right. Better still, tell the person who is quoting that figure to knock it off.

⁷¹ *The Land*, 'Wheat a non-issue', 4th October 2007, pg 6.

⁷² This figure corresponds with the Rural Press survey, see reference above.

Questions growers should ask about WEMA and AusWheat.

1. How much money has been contributed to WEMA by growers?
 - Why won't the WEMA Chair disclose this detail publicly? How has WEMA spent those funds?
2. On October 25th the WEMA Chair stated in a letter to the Farm Weekly that he was "...holding letters from two of Australia's leading banks who are ready to bankroll the AusWheat proposal".
 - Who are these banks?
 - How much are they going to "...bankroll AusWheat" and under what conditions?
3. If WEMA has secured financial commitments from banks, why is WEMA still asking for growers and taxpayers' money?
4. Has WEMA spent all of the \$250,000 given to it by Mr McGauran?
 - Have these funds been used for Mr Blight's monthly retainer and his expenses?
5. Is it correct that disgraced former AWB employees wrote parts of the AusWheat business plan?
6. In the AusWheat business plan⁷³ there is an emphatic statement about the need for only one buyer of wheat (pg. 16), but the plan also discusses having 'multiple export facilitators'.
 - What are "multiple export facilitators" and how would they conform to the principle of a single desk?
 - If WEMA does want multiple exporters, this appears to invalidate all of its arguments about the benefit of having an export monopoly – please explain.
7. The AusWheat business plan projects that the company will cost between \$35 and \$45 million PA to run, yet provides no indication of where the initial funding for the company is coming from.
 - Will AusWheat borrow start up funding? Where will capital for the purchase of wheat come from?
 - How will the borrowing be secured, given that AusWheat will have no cash or assets?
8. The AusWheat business plan states that pool participants will fund the operations of the company and that it will draw its working capital from an average marketing charge of \$4.64 / T. This requires a minimum pool size of 7.5 MT or 9.7 MT to fund the company at a running cost of \$35 or \$45 million PA respectively.
 - What will AusWheat do in instances when the export surplus is less than 7.5 MT, as it was in 2006/07 and is expected to be in 2007/08?
 - Will AusWheat simply retain the cash it requires to operate from its pool, regardless of the size of the pool?
9. WEMA states that AusWheat will run a national pool, which means AusWheat will hold legal title to all the wheat in its pool.
 - How is AusWheat going to finance the purchase of wheat in its pool if wheat is not to be compulsorily acquired? What is the expected total annual cost of AusWheat finance?
 - Will it be more expensive than the finance provided by current pool operators?
 - Will AusWheat provide an advance or loan, or is it expecting pool participants to carry debt themselves until disbursements from the pool are available?
 - What steps will AusWheat take to reduce the financial strain on growers and other pool participants, especially those suffering from drought conditions?
10. Managing a pool is a complex financial operation, requiring qualified people and sophisticated computer systems capable of handling multiple transactions and complex data management.
 - Has AusWheat developed a detailed plan for its account management system?
 - What guarantees can AusWheat provide that it will successfully pay growers and other pool participants accurately and on time?

⁷³ Wheat Export Marketing Alliance, Business Plan, Australia Wheat Limited (AusWheat) September 2007.

- What timeline does AusWheat have in place to get systems in place and operating on time?
11. The AusWheat business plan states that WEMA has no idea who the current customers for Australian wheat are and proposes identifying them from 'public sources'.
 - What are the public sources?
 - How much will the process of buying a customer data base cost?
 - Has AusWheat had discussions with these customers to establish that they will deal with the company?
 12. Since 1999, the quantity of wheat purchased by AWB from growers as a proportion of the export pool has fallen from 85% to as low as 20% in 2006/07. The majority of wheat now exported by AWB is owned by traders and marketers.
 - How does AusWheat intend to service non-grower wheat suppliers and how will AusWheat expect these companies to carry its operational debt burden?
 13. The AusWheat business plan estimates that it will need a staff of up to 60 people.
 - What is the proposed budget for staff procurement?
 - How long does AusWheat anticipate it will take to employ staff?
 - What contingency does AusWheat have if it can't employ sufficient or suitably qualified staff in time for the next harvest?
 14. The AusWheat business plan proposes that the company will be both an active market participant, buying and exporting wheat, while also acting as a quasi regulator, by issuing permission to export to other organisations.
 - How does AusWheat propose to address the problem that such an arrangement is currently illegal, under the Wheat Marketing Act⁷⁴?
 - Being a commercial operator and a quasi regulator creates a major conflict of interest - how does AusWheat propose to address this problem?
 - What are the structures or protocols that AusWheat proposes to deal with this conflict of interest?
 - How will AusWheat legally operate, given that its proposals are outside the parameters of the Wheat Marketing Act, the Trade Practices Act, the Financial Services Act and the competition laws?
 15. WEMA consistently states that AusWheat will extract a 'premium' for Australian wheat.
 - Is WEMA confident that such a claim can legally be made and that such claims are not in contravention of ASIC, the Corporations Act or Financial Services Act provisions?
 - How can WEMA state that it will extract a premium from customers?
 - How will the premium be extracted and what premium will be extracted?
 - Has WEMA considered the ramifications of stating publicly that it will be attempting to charge customers higher than market value prices?
 16. The AusWheat business plan makes no mention of the supply chain and how the company would establish or manage relationships with supply chain service providers.
 - Does AusWheat have a plan for establishing contractual relationships with supply chain operators? On what basis will the contracts be negotiated?
 - Is the AusWheat plan based on current storage, handling and logistics contracts? Is AusWheat legally able to enter into agreements with transport providers, such as rail operators?
 - Will AusWheat be able to meet all relevant legal and financial standards required to enter into such contracts?
 - Will AusWheat be able to satisfy the prudential requirements of its proposed contract partners?
 17. WEMA claims its wheat export monopoly will save money, compared with the current monopoly.
 - What evidence does WEMA have to make this claim? Where will the savings be made?
 - Does WEMA have a detailed model of the anticipated cost savings? What will WEMA do if its proposed model *increases* costs?

⁷⁴ Wheat Marketing Act 1989 as amended.

Wheat08.com

Commentary Promoting Reform of the Wheat Export Monopoly – 1 November 2007

'Australian wheat competing against Australian wheat' – another Monopoly Myth.

Pro monopolists continue to resort to tired clichés to support their outdated agrarian socialist views. Second only to '70% of growers support the single desk'⁷⁵, is the 'Australian wheat competing against Australian wheat' argument. The rationale behind this myth is that more than one seller of Australian bulk wheat into the world market will drive prices down, as Australian wheat exporters compete against each other in a 'Dutch auction' for buyers.

Other agricultural export industries.

The 'competition equals lower prices' argument flies in the face of decades of experience in the dairy, beef, lamb, wool, barley, canola, sorghum, pulse, wine and horticultural export sectors, all of whom have multiple Australian exporters. Wheat growers who have diversified into these commodities (and they are in the majority) know that competing exporters *don't* drive prices down. Competition in these industries *drives* product innovation and customer service. This adds value to exports and increases growers' net incomes.

The 1934/36 Royal Commission on the wheat, flour and bread industries⁷⁶ found that multiple buyers and exporters didn't drive prices down. The major factors that impacted on wheat prices at that time were international and domestic supply and demand. Nothing has changed in the 75 years since.

Is wheat different to other export industries?

No, it isn't. The products noted above sell into global markets structured in the same way as the wheat market; consumption is known, global stocks are known, production fluctuations are estimated and exchange and interest rates figured into basic price determining factors.

Monopoly = market manipulation

The pro monopolists argue that multiple wheat exporters will reduce prices by selling at the lowest price and then passing losses back to growers. A lower selling price means lower revenue and lower margins, so this argument illogically anticipates that an exporter would seek to make a loss, rather than a profit.

Would an exporter intentionally set out to make a loss? In a competitive domestic market, which we now have, if an exporter is passing back losses, that exporter would not be able to attract business from growers. Pro monopolists are patronising growers by assuming that, with freely available market and price information, growers are incapable of making a rational decision on price.

On the other hand, a monopolist *can* offer prices below the prevailing global price, because the monopolist will obstruct pricing signals and manipulate market information. The AusWheat proposal⁷⁷ makes it clear that the aim of WEMA is to have *only one buyer* of wheat in Australia, with no competition, no choice and no transparency. This would leave AusWheat free to manipulate the market as a monopolist, without the discipline of competition.

More Exporters = More Customers.

The current monopoly restricts both market penetration (selling opportunities in a particular market) and customer choice (the freedom a customer has to choose who they buy from). For example, a flour miller may want two suppliers of wheat to ensure continuity of supply and not want to share a supplier with a competitor. Or, a buyer may want to buy Australian wheat but has had a bad experience with the monopoly exporter and won't deal with them any longer. These are both real world examples.

The only option for these customers today and under the AusWheat proposal, is to buy non-Australian wheat. By limiting the number of exporters, we are limiting the number of customers that can be serviced *and* our potential market share.

Experience in other industries shows very clearly that exporter competition will drive innovation, customer service, supply chain efficiency and cost reduction. Most importantly, there will be more *choice* for customers, which will lead to market share growth and more freedom for growers, which will drive innovation and cost savings.

⁷⁵ Wheat08 # 11, 21 October 2007.

⁷⁶ Royal Commission on the wheat, flour and bread industries, 25 January 1934 - 1 April 1936, 1932-34/IV/2425-67, 1934-37/IV/1-690

⁷⁷ Wheat Export Marketing Alliance, Business Plan, Australia Wheat Limited (AusWheat) September 2007 pg 16.

Wheat08.com

Commentary Promoting Reform of the Wheat Export Monopoly - #13 - 2 November 2007

'The Monopoly earns a premium' myth.

"We have to have a monopoly wheat exporter because that's the only way we can get a premium". This is the catch cry of the increasingly desperate wheat monopoly supporters.

For many pro monopolists, the bedrock on which their belief is founded is the mythical ability of the monopoly to earn a 'premium'.

It is a simple fact that where Australian wheat is competing 'like-for-like' with other suppliers, price is the major determinant of who does and who doesn't 'get the business'. Why would customers pay more for wheat from Australia when they can get the same wheat at a 'world' price?

In instances where Australian wheat *is* different from other wheat, consumers *may* pay a higher price because the Australian wheat is a *better* product. A consumer may blend higher quality Australian wheat with lower quality wheat from another source, to end up with higher quality flour.

The fact that Australian wheat may earn a slightly higher price in *some* markets for *some* grades, has nothing to do with the export monopoly and everything to do with the type of wheat grown in Australia and the climate under which it is grown.

Does the monopoly allows 'strategic' selling of Australian wheat?

A new myth has appeared during this election campaign - apparently the monopoly is the only way to 'strategically' sell Australian wheat. This claim defies any rational analysis of market behaviour.

Monopoly adherents believe that Australia can exercise market power in the global wheat market. They believe that by withholding supply and 'strategically' entering and exiting the global market, the Australian monopolist will earn a 'premium'.

It's another myth. The only way to 'strategically' sell wheat is to *differentiate* Australian wheat from that of its competitors, on quality, service, relationships or other value adding activities.

Changing markets and changing demand.

The 1995 Booze Allen Hamilton⁷⁸ Australian Wheat Board study found that, once the Uruguay Round of GATT reforms⁷⁹ were implemented, the monopoly would begin to impose costs on the wheat industry.

Over the 13 years since the Booze Allen report was completed, the global grain market has changed significantly. Consumers of wheat based foods are demanding more choice and innovation in food (convenience, novelty, health focus). This diversity of demand drives food manufacturers to expect more diversity in raw material supply and a closer relationship with suppliers.

AWB's own 2004 strategic study⁸⁰ recommended that Australia had to move away from head to head price competition with 'commodity' wheat suppliers (such as Argentina and the Black Sea states) and focus on variety characteristics offered by Australian wheat and service to customers.

'The monopoly can't handle a demanding and diversified market'.

The reality of the bulk export monopoly is that it was designed for a global market that no longer exists. The monopoly is geared for uniformity, where 'savings' can be made on a volume, or a standard 'unit cost' basis. This is incompatible with the concept of a dynamic, diversified, consumer driven market.

The 2004 the Boston Consulting Group recommended moving away from a bulk commodity mentality to a 'diversified product' focus. The Australian beef industry has benefited enormously from this kind of product differentiation, especially in the Asian market.

Smaller, more agile wheat exporters, who are capable of supplying customers with a diverse range of products and service, is the future - not a monopoly designed for a bygone era.

Multiple exporters will bring the customer closer to the grower and allow market signals to filter right down to the farm level. This will allow growers to become *participants* in that chain and enjoy greater opportunity and choice.

Under the monopoly, growers are locked out of the value chain and locked out of value adding relationships.

By wishing to turn the clock back to compulsory acquisition and centralised control, WEMA and AusWheat are determined to keep growers in the dark and deny them choice and real opportunities to participate in their own industry.

⁷⁸ This was the study that formed the basis of the privatisation of the Wheat Board and the formation of AWB Ltd.

⁷⁹ Specifically the elimination of direct subsidies to grain exporters.

⁸⁰ Boston Consulting Group, July 2004, Maximising Returns To Growers Supplying The National Export Wheat Pool.

Wheat08.com

Commentary Promoting Reform of the Wheat Export Monopoly - #14 - 7 November 2007

The 'wheat monopoly creates a level playing field for growers' myth.

There's another myth trotted out by pro monopolists that says, "without an export monopoly some farmers will have an advantage over others".

The assumption is that the wheat monopoly is a 'safety net' that makes all farmers 'equal', so that one farmer doesn't have an 'advantage' over another farmer.

Does the monopoly create a level playing field?

The reality of the wheat industry is that some farmers are better than others. Some regions have better climate and soils and some regions can grow higher value wheat. Some regions are closer to markets (e.g. WA to Indonesia) and some growing regions are closer to ports or main rail lines, so transport for growers in those regions is less costly. Variations in farming skill, location, climate, soils, etc. are a fact of life. The monopoly does nothing to even out this natural diversity.

Does the monopoly even out 'site to sea' charges?

A differential pricing regime for storage, handling and transport currently operates⁸¹. Removing the monopoly is not going to change this. If a grower is close to a port or a major rail line, transport and handling costs are lower than if a grower is further away.

Where a grower has a location advantage (proximity to a port or a market equalling lower transport costs), some of this inherent value is *stripped away* by the monopoly. This is particularly the case in WA and parts of SA, where the shipping advantage (proximity to market) is not returned to the relevant pool participants.

The value stripped from the 'advantaged' growers is diluted into marginal pool returns by averaging shipping costs across the pool. It is not used to reduce handling and transport charges in other areas.

Will there be winners and losers if the monopoly is removed?

Growers close to ports or customers *will* benefit from the removal of the monopoly, as the portion of their location advantage currently taken from them by the national pool would be 'returned'.

Growers in all states will pay no more than they do now for handling and transport if the monopoly is removed. Regardless of where a grower is located, he or she is paying the real cost of handling and transport. Pro monopolists are simply trying to scare growers into believing that they would pay more for transport and storage.

What will be the impact on the domestic market?

While growers in the east don't have the location advantage of growers in WA and parts of SA, they do have a rapidly growing domestic market, now consuming 2/3⁸² or more of wheat produced in Queensland, NSW and Victoria. For these growers, supplying the domestic market is much more profitable than the export market, due to the lower transport and marketing costs involved.

The export monopoly hinders profitability for east coast growers because they lose about the same per tonne⁸³ as growers in the export focused regions, through the depression of cash prices by the national pool estimated return (EPR).

How? An estimated pool return for a national pool needs to be 'conservative', to allow for market fluctuations. This is no real fault of the pool manager, as the market, across the duration of a pool, will fluctuate.

Cash prices are set just above the national pool EPR and therefore below what would be 'full value' in a market without the dampening effect of the national pool estimate. Smaller regional pools are not as constrained as the monopoly pool and will have less of a price dampening impact.

Everyone loses under the monopoly.

Under a national pool, growers with a location advantage (WA and SA) lose some or all of their advantage to the pool. Those who rely on the domestic market (Qld., NSW, Victoria) lose similar value, through the pool depressing cash prices and by the impact on domestic demand growth which increases the risk of investing in domestic consumption, meaning lost market opportunities and lost income for growers. There's one thing the national pool and the monopoly does well - it makes everyone a loser.

⁸¹ Refer to <http://www.awb.com.au/growers/awbgrainprices/esr/> for variations in site to sea costs.

⁸² In drought years, the domestic market will consume comparatively more wheat than is exported.

⁸³ Several studies estimate this loss of value to be between \$8 and \$15 / T.

Wheat08.com

Commentary Promoting Reform of the Wheat Export Monopoly - #15 - 13 November 2007

Roy Morgan wheat growers' study.

The most independent, transparent and credible analysis of wheat growers' management priorities and wheat marketing intentions was released on November 13th. The study, carried out by Roy Morgan Research, randomly selected 500 growers across the country to seek;

1. Growers management priorities,
2. Growers marketing intentions for the current harvest,
3. Their knowledge of AWB's decision to cease offering a national pool in 2008; and,
4. The impact of that decision on their wheat marketing intentions for 2007/08 and beyond.

The study was not about the wheat export monopoly. Survey participants were not asked if they supported or opposed the 'single desk' and if the 'single desk' was mentioned by a grower, it was raised by them in the context of their overall concerns and priorities.

Key findings.

The main issues of importance for growers were⁸⁴;

- | | |
|-------------------------------|-----|
| 1. Economics / profitability, | 75% |
| 2. Climate related, | 72% |
| 3. Production / research | 52% |
| 4. Single desk related | 17% |
| 5. Other | 14% |

Growers' wheat marketing intentions for 2007/08 in order of priority were⁸⁵;

1. Sell on delivery to the silo for cash.
2. Sell to a local trader or merchant or to another pool provider.
3. Warehouse at the silo and make a marketing decision later.
4. Store on farm to market after harvest.
5. Sell on delivery to the silo into the AWB national pool.

The impact of the decision by AWB to finalise its AWB International business was measured in the context of the survey respondents' wheat marketing decisions this year and into the future;

- 26% of growers said the decision would have a 'major' impact on their marketing decisions,
- 37% said it would have 'some' impact on their marketing decisions and
- 32% said it would have 'no impact' on their marketing decisions.

This means that 63% of growers consider the decision by AWB will have a "major" or "some" impact on their marketing decisions. Almost 1/3 (32%) of growers stated that the decision by AWB would have 'no impact' on their marketing decisions this year and into the future.

Is the single desk a priority?

Strong opinions on the export monopoly ranked very low on the list of priorities, with 4% of growers listing 'unhappiness' over possible removal of the monopoly as a priority for them (ranked #15) and 3% nominating 'happiness' with the possible removal of the monopoly (ranked #19) as a priority.

Only 11% of growers nominated *uncertainty* over the single desk and deregulation as one of their priorities. This response ranked 6th of the 30 priorities recorded.

The research by Roy Morgan has strong ramifications for the development of wheat industry policy, no matter who wins the Federal election.

The full report (now on www.wheat08.com) has already become required reading for agricultural policy analysts.

⁸⁴ Survey participants were asked to nominate the 3 issues at the top of their minds. The figures indicate the number of participants who mentioned these issues as a percentage of the total number of responses.

⁸⁵ Survey participants were able to nominate more than one method of selling wheat. The ranking is derived from the number of survey participants who nominated a particular method of marketing their wheat in order of preference.

Wheat08.com

Commentary Promoting Reform of the Wheat Export Monopoly - #16 - 16 November 2007

WEMA – 1 in 10 is not enough.

The statement by the Deputy Chair of WEMA that the appeal to Australian wheat growers for \$2 million had netted "\$10 per grower"⁸⁶ from 20,000 growers, shows that WEMA has comprehensively failed to garner support for their AusWheat project from growers.

WEMA has declared their appeal "a success", even though the group has only received one tenth of the funds it was seeking.

No "Fistful of Dollars".

With a pocket part full of 'loose change', WEMA is proposing to form a company that will be responsible for trading over \$3 billion worth of wheat per year; with no experience, a fraction of the millions needed and just over 100 days until 1 March 2008 in which to perform this 'miracle'.

As the self styled 'Saviours' of the wheat industry, WEMA have more chance in the remaining 100 days of turning water into wine than they do of establishing a \$3 billion grain trading company.

A vote of no confidence.

By not supporting the WEMA appeal, growers have shown they are too smart to be hoodwinked by WEMA and their agrarian socialist rhetoric. The majority of Australian wheat growers know that returning to compulsory acquisition and centralised control will reduce marketing choice and freedom.

Growers have obviously realised that a return to the suffocating regulation proposed by WEMA will depress their industry, reduce innovation and limit their right to greater choice.

The failure by WEMA to raise funds is a *vote of no confidence* in the AusWheat plan.

It's "Back to the Future".

The WEMA proposal is about continuation of a "60 year old"⁸⁷, outmoded model of 'centralised control' that flies in the face of growers' own priorities⁸⁸.

WEMA want to control all wheat grown in Australia through compulsory acquisition. In doing so they will be turning the clock back a quarter of a century and taking the industry back down the 'Time Tunnel' to 1984.

The hidden agenda.

WEMA members have a hidden agenda – the financial survival of state farming organisations. These groups currently speak for less than 1 in 5 grain growers and are facing various membership and / or financial crises, all the way up to the national level.

The financial and political survival of these groups is threatened and the AusWheat plan is seen by some in these organisations as a way of securing their financial future, by extracting 'rent' from the wheat export monopoly.

What these organisations really want is 'compulsory unionism', where growers pay their 'dues', whether they chose to or not. When WEMA members say they are 'protecting growers interests', they really mean they are ensuring their own survival, no matter what the cost.

The debate is all about politics.

With their failure to achieve popular support for the AusWheat plan, WEMA members have an opportunity to make a dignified exit from the corner they've painted themselves into.

A sensible strategy would be to admit defeat now and exit with some dignity intact.

A re-elected Coalition government is likely, after a period of 'assessment', to turn on the members of WEMA, making them the obvious scapegoats for the failure of their policy.

The reluctance of growers to put their hands into their pockets to fund AusWheat is the best evidence yet that the wheat export monopoly is more about personal political ambition and survival of political organisations, than it is about providing growers with more choice and lower marketing costs.

Growers and the industry at large need *more* choice and freedom – not less.

⁸⁶ "WEMA funds roll in", Farm Weekly, 14 November 2007.

⁸⁷ Comments made by WEMA member and Chair of NSW Farmers Association grains committee, Weekly Times, November 7th 2007. The *second* wheat export and marketing monopoly was formed in 1939 (the first ran between 1915 – 1921) making the system 68 years old.

⁸⁸ Roy Morgan Research, Wheat growers study, 13 November 2007 www.wheat08.com

Wheat08.com

Commentary Promoting Reform of the Wheat Export Monopoly - #17 - 19 November 2007

A View from The Capital: Election 2007 -the danger lurking in the Red Room:

To a jaded, long term election watcher, Election 2007 holds more interest than many before.

The battle for hourly media supremacy between the look alike leaders has occupied most observers, while the untold real story of this election lies in the tussle for the Senate. All the billion dollar promises may well be consigned to the dusty pages of history if there is a hostile Senate.

In the old Senate, the Government had the balance of power, thanks to the occasionally uneasy coalition with the Nationals and its relationship with the Country Liberal Party and Family First.

The Liberal Party held 34 Senate spots, the Nationals 4, CLP 1 and FFP 1. The ALP had 28 Senators, the Australian Greens 4 and the Australian Democrats 4⁸⁹.

The Balance of Power – who'll have it?

The Roy Morgan poll⁹⁰ conducted on November the 13th showed support for the Coalition in the Senate was 35.5% (up 2% from September) and support for the ALP was 44.5% (down 2%).

The real future of the Senate lies in the minor parties. The poll showed support for the Greens is 9% (down 0.5%), support for the Australian Democrats is 3.5% (up 1%), Family First 2% (unchanged), One Nation 1% (unchanged), and support for Other Parties and Independent candidates is 4.5% (down 0.5%).

The Greens, Democrats and the ALP have launched an historic joint campaign to beg voters to "vote for balance" in an attempt to wrest control of the Senate from the Coalition.

The Waiting Game...

Half of the State's Senators are up for re-election. With the exception of the Territory Senators, the successful Senators won't be sitting in the Upper House until July 1st 2008. This raises some interesting scenarios, depending on who wins Government.

The Guessing Game....

Polling indicates a power balance in the Senate as tight is that in the House of Reps. The six month waiting period before the new Senate becomes reality adds complexity to any legislative program a new Government will want to implement.

Reforms to the wheat export monopoly will require changes to the Wheat Marketing Act to be passed by *both* houses, and success or failure may well depend on one Senator waking up to a 'bad hair day'.

The implications for reform to the wheat marketing monopoly...

If reform of the Wheat Marketing Act is not achieved by June 30th 2008, the date when the Minister's special powers to grant or deny bulk export consents sunsets, the export monopoly will revert to AWB International⁹¹, although without the previous veto powers⁹².

Even if Labor wins on November 24th, the Coalition will still 'have the numbers' in the Senate until July 2008 (and beyond if there is no change to the balance of power) and Labor's wheat marketing policy may be defeated in the Senate, if it introduces enabling legislation before July the 1st.

A Coalition victory may see the transition of the monopoly to WEMA before the Prime Minister's deadline of March the 1st. However, the more likely scenario is that a newly installed Coalition Government will, after appropriately assessing the WEMA plan, accept the obvious lack of support for it and introduce legislation similar to the ALP's, or remove all restrictions on wheat exports.

Victory by the Coalition on November 24th would allow smooth passage of changes to the Act prior to June 30th using their Senate majority. But, there is a risk that the National Party would hold out for retention of the monopoly in some form or another, and 'strong arm' the Government into continuing the current heavy handed regulation of exports.

Victory by the ALP will guarantee reform of the wheat export monopoly, but there is uncertainty over the passage of legislation through the Senate prior to June 30th. However this uncertainty can be tempered by the fact that, while the monopoly may revert to AWB International after July 1st 2008, there is still time to amend the Act prior to the 2008/09 wheat harvest.

Who said politics is boring?

⁸⁹ Parliament of Australia: <http://www.aph.gov.au/Senate/general/index.htm>

⁹⁰ Roy Morgan Federal Poll, Senate, No. 4241, www.roymorgan.com.au

⁹¹ Wheat Marketing Act 2007, as amended, Schedule 3, Section 3, 3AA.

⁹² Wheat Marketing Act 2007, Section 57, 3 (c)

Wheat08.com

Commentary Promoting Reform of the Wheat Export Monopoly - # 18 – 22 November 2007.

Deregulation – what's in a name?

Many industry commentators have been quick to label the new ALP wheat export policy⁹³ as 'deregulation'. They are wrong.

The act of 'deregulation' is the removal or significant reduction of a Government's regulatory burden on an industry or a commodity. The common practice of deregulation involves the complete or extensive removal of regulation, allowing free market forces to operate.

Is the ALP policy deregulation?

No, it is not. The ALP policy proposes continuation of regulatory controls through a Wheat Marketing Act, overseen by a new regulator. It will still be illegal to export bulk wheat without the permission of the regulator. The policy proposes *removing the monopoly* and de-politicising regulation, by also removing the Minister's role in granting export consents.

The ALP policy shifts the point at which regulation is imposed on the market, but it doesn't actually reduce regulation. If the ALP was intending to 'deregulate', it would simply repeal the Act.

The Coalition.

The same commentators referred to above are predicting, should the WEMA / AusWheat proposal falter, that a re-elected Coalition Government would 'deregulate' the export industry. This assumes the Government will swing its policy violently from one extreme (current support for an export monopoly) to another, (complete removal of all regulation of bulk wheat exports).

Growers have shown very little interest in returning to compulsory acquisition, reduced domestic competition and non-transparent centralised control of the wheat industry. The failure by WEMA to raise more than a fist full of dollars from growers for their AusWheat proposal is stark evidence of the lack of faith in the obsolete export monopoly.

While a very small percentage of growers may noisily oppose change, as they did in 1989, close to 90%⁹⁴ or more know that their day to day farming operations will not be affected in any major way. Growers have held their own 'election' and have voted against the AusWheat proposal with their wallets. This lack of support will have a major bearing on any future Coalition policy.

It is a safe bet that a re-elected Coalition Government will allow the AusWheat process to reach its inevitable conclusion and that a decision on the future regulatory structure for bulk wheat exports will be made in the first quarter of 2008.

What we can expect from the Coalition is sensible regulatory reform, that will provide a rational transition from the monopoly to a more dynamic and competitive market, putting regulation of the wheat industry in line with the rest of the Coalition's economic policies. In principle, this may resemble the ALP policy, but possibly with a different method of implementation.

Stability and long term implications for the industry.

Wheat export policy stability and clarity is vital for the future economic sustainability of the whole of the grains industry. Long term uncertainty over the wheat monopoly has been an investment disincentive, particularly in the areas of transport and logistics.

The ALP policy provides certainty and this is why the policy has been welcomed across the value chain. Should Labor be elected, the industry, at all levels, can start to plan and invest for the long term.

It will be essential for a re-elected Coalition Government to quickly get its policy house in order.

Retention of a monopoly *in any form* will continue uncertainty. Any monopoly would still be subject to review by the National Competition Council in 2010 and be classified as a State Trading Enterprise by the World Trade Organisation, compromising Australia's international trade policy reform agenda. Our leadership of the Cairns Group of free trading nations will continue to be compromised by this economic anachronism.

Without clarity, investment in the industry, particularly in storage, handling and transport infrastructure, will continue to decline. This will drag the efficiency of the grains industry down and impact on competitiveness. It will compromise *all sectors* of the grains and related grain consuming industries, with an inevitable loss of jobs and economic activity across rural Australia.

⁹³ Australian Wheat Export Marketing, Election 2007 Policy Document, October 2007.

⁹⁴ Roy Morgan Research Wheat growers study, 13 November 2007, Table 3.5.

Wheat08.com

Commentary Promoting Reform of the Wheat Export Monopoly - #19 - 26 November 2007

A Rudd government = the end of the 'single desk'...

The resounding victory by the ALP at the November 24th poll not only means the end of the Howard era, but the eventual end of the 'single desk' system of wheat export marketing.

The ALP policy on wheat exports, launched in October, is not deregulation or partial deregulation. The new policy, once implemented, will shift the focus of regulation from the current uncontrolled monopoly to a system that will allow accreditation of multiple bulk wheat exporters.

The policy heralds the end of the out-dated monopoly structure, promising greater competition for the purchase of wheat from growers and better service for export customers.

...and the end of the AusWheat farce.

The campaign by WEMA to take over the 'single desk' and the March 1 deadline for the establishment of a new monopoly evaporated with the previous government on Saturday night.

With less than 100 days to go until 1 March, with no funding, no capital base, no company, no staff, and no political patrons, the WEMA plan to return to compulsory acquisition has collapsed.

Despite their supposed 'non party political' status, WEMA members were openly campaigning for the Nationals. The serious electoral 'hit' taken by the National Party, losing one quarter of its seats, means the plan by the state farming organisations to use the wheat export marketing system as a new funding source is also in tatters.

Priorities for the new Minister.

The first priority for the new Minister for Agriculture is to address the outstanding applications for consent to export wheat in bulk that were delayed for months by former Minister Peter McGauran.

The new Minister should put his faith in the recommendations made by the Wheat Export Commission (WEC) and approve any and all consent applications that have been cleared for approval.

The current AWB pool has over 2 million tonnes committed to it. The new Minister doesn't have to refuse consent applications to 'protect the equity' of those who have elected to participate in AWB's final national pool. It will be a successful pool in its own right if managed appropriately.

Growers in West Australia stand to make the biggest immediate gains if CBH is allowed to export more than the 500,000 T it has been granted so far. For growers in others states, very little will change. One thing is for certain, the sky won't fall in, as predicted by the doomsayers.

A new Senate.

The ALP's resounding success in the House of Representatives has not been mirrored in the Senate. While all the quotas have yet to be finalised, it appears that the Coalition will have 37 seats, Labor and the Greens 37 seats, Family First 1 seat and SA Independent Nick Xenophon 1 seat.

The Coalition holds the majority in the Senate until July the 1st and it could decide to be bloody minded over the introduction of amendments to the wheat marketing legislation. However, there are a number of Coalition Senators who support removal of the monopoly, so this might assist in the passing of legislative amendments to the Wheat Marketing Act in the first half of 2008.

The Government and the industry may also need to do some 'massaging' of Senators Xenophon and Fielding to ensure that changes to the Wheat Marketing Act are successfully passed.

An industry voice.

The political landscape has changed dramatically with the outcome of the election and we can expect to see fundamental changes in the way the grains industry is represented at a national level.

West Australian, South Australian and eastern growers who are not members of the old Nationals aligned state farming organisations have signalled their willingness to work with a new ALP Minister for Agriculture to bring about positive reform of wheat marketing.

Labor's policy contains plans for an 'expert panel' to advise the new Minister for Agriculture on implementation of the proposed exporter accreditation system. It is difficult to see how any organisation that is a member of WEMA could be included on such a panel, given their open hostility towards Labor up to and during the election campaign.

The lobbying approach taken by WEMA in the lead up to the election was arrogant and aggressive. It was based on a belief that WEMA members had an entitlement to 'rule' the industry, despite the obvious lack of financial support from growers for its AusWheat strategy and the fact that WEMA member organisations account for fewer than 1 in 5 grain growers nationally.

Wheat08.com

Commentary Promoting Reform of the Wheat Export Monopoly - #20 - 19 November 2007

Young guns and old pistols...

An article in the Farm Weekly⁹⁵ reported on a meeting of 11 wheat producers, all under the age of 31, who supported the single desk. Good on them for standing up and expressing their opinions. The great thing about a liberal democracy like Australia is that diversity of opinion is embraced.

Diversity of opinion was also on show at November 24th Federal election. The majority of Australian voters opted for a new direction for the country and elected a new Government. For wheat growers, the choice of the Rudd Labor Government, with its new bulk wheat export policy, signalled the end of the wheat export monopoly. When the monopoly is finally abolished some time during 2008, this will end a process of reform that stretches back almost 25 years to 1984, when feed wheat was removed from compulsory acquisition.

Wheat follows wool, dairy and sugar into the 21st century...

The Australian wool industry was brought to its knees in the 1990's because the reserve price scheme insulated the production sector from demand signals. When the reserve price scheme was suspended in February 1991⁹⁶ the stockpile had grown to 4.7 million bales.

The cause of the collapse in wool prices was a drop in demand and economic problems in countries that purchased and used wool. Prices had already fallen before the reserve price was removed, not *after* that event.

The sugar industry was initially regarded as a deregulation 'disaster'. Wrong again. World sugar prices were depressed in the late 1990's and early 2000's as a consequence of regulatory intervention in the United States and the EU. Subsidies and production incentives encouraged overproduction, which then led to the sugar price collapse. As in the wool industry, regulation was removed *after* global sugar prices fell.

Pro-monopolists also cite the dairy industry as a victim of deregulation. But many in the industry tell a different story. The perspective of the Chair of Western Dairy and the WAFarmers dairy sector, Mr Peter Evans, in the same edition of the Farm Weekly⁹⁷ is worth noting.

Mr Evans said there were 'plenty of things going' for his industry and "...as a dairy farmer I have seen good financial returns year after year, despite this talk of doom and gloom and there has always been capital gain". This statement, from an active dairy farmer and an elected representative of the dairy industry, contrasts with the view of his grain growing colleague.

Negative talk leads to negative outcomes.

Peter Evans also lamented "...all the negativity..." about his industry, believing it had damaged farmers' views of their own self-worth and "...had a significant impact on communities and caused locals to no longer be interested in working on dairy farms". The wheat industry is suffering from the same problem. All the same tired old arguments which continue to be advanced, despite the resounding vote of support for Labor's new system, were used in 1988 / 89 to oppose the removal of compulsory acquisition - doom, gloom and predictions that the world will end.

The single desk challenge.

The bottom line for the wheat single desk is simple. Supporters of the system could have ensured its survival if they had backed their rhetoric with their own commercial behaviour. But they didn't.

If 70% of growers really do support the single desk, they'd show that support by selling *all* their wheat to a national pool to ensure its survival *every year* and ignore cash prices or other selling options. Yet the recent Roy Morgan poll indicated that growers, in roughly the same proportions, are simply not supporting the single desk through their commercial actions. Growers placed selling to the national pool last of 5 options they nominated as their intended marketing choices.

Growers are acting rationally in seeking the best deal for themselves. Collectivist rhetoric from agrarian-socialist farm organisations is exposed as a lie time and time again.

The Labor Party policy was formulated long before the results of the Roy Morgan survey were released, and yet it taps into the sentiment exposed by this independent study of grower intentions. Their plans for selling their wheat revealed the single most important element in their business planning - the desire for choice.

⁹⁵ Farm Weekly, November 22, 2007, Page 3, 'United We Stand'.

⁹⁶ 1301.0 Australian Year Book, ABS, <http://www.abs.gov.au/ausstats/abs@.nsf/0/F7B136618913C740CA256B35007C2065?Open>

⁹⁷ Farm Weekly, November 22, 2007, Page 28, 'Dairy's future a real squeeze'.

Wheat08.com

Commentary Promoting Reform of the Wheat Export Monopoly - #21 - 5 December 2007

Drowning in a pool of fear...

WEMA members are claiming that, with the demise of the AWB run monopoly export pool, "...there will no longer be any EPRs..." to guide wheat growers' price expectations and the cash market. No evidence is advanced to support this bizarre theory.

No EPR = no business.

Will EPRs continue to be offered, even if AWB is not running a national pool? The answer is yes.

Let's remember that the AWB national pool is not the only pool offered. Growers across the country currently have a range of pool and related financial products to choose from. Even in Western Australia, where the monopoly continues to seriously constrain marketing choice, other pools are offered on a limited basis.

A greater range of pool and other marketing options will be available to growers once the monopoly is removed. This will mean that competition for growers' business will intensify. Competitive pressure means that if a company offered a pool without an EPR, it wouldn't attract any business.

Why would a grower sell wheat to anyone who offered a pool with no EPR?

Will there be pools after the AWB national pool is closed?

WEMA members also claim that once the final AWB monopoly national pool is finalised in 2008, there will be no further wheat pools offered.

Pools are not offered to growers as a public service. They are run as a commercial business. The pool providers make money in a range of ways - from retailing the finance component of the pool, to the 'positions' taken on grain prices, exchange and interest rates and from managing the proceeds of wheat sales.

Pools will continue to be offered to growers after the monopoly is removed, because *growers want them* as a risk management option and pools represent a *commercial opportunity* for the pool manager.

This is the market at work. If there is demand for pools from growers, pools will be offered to them.

The removal of the monopoly will mean that additional competition from multiple bulk wheat exporters will *increase* the range of financial products available to growers, *giving growers more choice*, as well as increasing the pressure on service providers to reduce costs.

The monopoly also prevents a sophisticated derivatives market, like SAFFEX in South Africa, from developing. When such a market is developed in Australia, the risk management options available to growers will increase.

The 'big crop' scare.

WEMA members and pro-monopolists also enjoy pressing the 'big crop' panic button. They claim that having multiple exporters of wheat might be OK if you have a small crop, but a big crop can only be sold if there is one exporter of Australian wheat.

How can *less competition* be better at selling a big crop than *more competition*? More bulk exporters mean more competition for the purchase of wheat from growers, more international customers and more market penetration.

In a year when a 'big crop' is harvested, Australia will be in a better position if there are more exporters. WEMA is fundamentally wrong again.

The 17.5 MT 2005/06 export pool is a good case study. That pool was not concluded until late 2007, while many growers were 'banking' on its finalisation in April '07. The delay meant many growers had to borrow to fund the 2007 crop, costing millions in interest and other charges.

Multiple bulk wheat exporters will mean that this situation won't arise. All the eggs won't be in the one basket. Smaller wheat pools can be managed as effectively as large ones. Pools will be finalised earlier, and growers will incur lower fees and charges.

If a pool provider or exporter doesn't perform to expectations, growers will have the power to choose who they do business with next year, a choice growers in export dependent regions don't have.

WEMA is opposing reform of the wheat export monopoly because it *takes power away from* the fading farm representative groups. Removal of the monopoly will put power into the hands of growers, where it should be.

Monopoly myth – changes to regulation have ‘destroyed’ the South African wheat industry.

Pro-monopolists are predicting the end of the Australian wheat industry if the export monopoly is removed. The *same* people and the *same* organisations predicted the end of the wheat industry when compulsory acquisition was removed in 1989.

These individuals and organisations point to the South African wheat industry as an example of regulatory reform causing a ‘disaster’. Like many of the myths surrounding the Australian wheat export monopoly, reality is quite different from the ‘facts’ portrayed by pro-monopolists.

The South African wheat industry⁹⁸.

The wheat industry in South Africa is quite small. Around 1 million Ha is sown annually to winter and summer wheat and up to 2.5 MT is produced. South Africa is a *regular importer* and occasional exporter of wheat, with prices frequently oscillating between import and export parity.

In South Africa, high ocean freight rates determine what can be a substantial oscillation between import and export parity. The price volatility that can result from this oscillation has been interpreted by some as a problem for South African farmers, but it is in fact nothing new and has nothing to do with the regulatory reform of the late 1990’s.

Regulatory reform in South Africa.

Up until the early 1990’s, the South African wheat industry was subject to a much higher level of regulation than the Australian wheat industry. The Marketing Act⁹⁹ controlled the price of many foods and commodities in South Africa. The original Marketing Act was introduced in 1937 for 2 reasons.

*“First, it was believed that the Act would enable farmers to stand together, and thereby stabilise and increase the prices they received for their produce (also on the export markets). Second, there was a belief that co-operation amongst farmers would cut out unnecessary duplication in the marketing chain, and therefore lower the cost of getting produce to the consumer in the form, and at the time and place, desired”.*¹⁰⁰

The Marketing Act and the structures under it failed to deliver on all counts. As part of the South African Government’s move to reform the economy during the 1990’s, driven by GATT reform pressures and economic stagnation, price controls on flour, meal, bread and controls on miller’s margins were removed in 1991 and the subsidy on bread was removed in 1992. A new Act formally abolished monopoly marketing, and the wheat industry was ‘deregulated’ from November 1st 1997¹⁰¹.

Maize v wheat – obvious winners from reform

The problems experienced in the South African wheat industry in the late 1990’s referred to by pro-monopolists in Australia as the ‘inevitable outcome of policy reform’, were caused by poor industry leadership, similar to that currently being shown by WEMA today, not by policy reform.

From 1987 to 1995, maize industry leaders embraced reform, encouraging the development of alternatives to monopoly marketing, including derivatives (futures, options), contracts, insurance, changes in production and demand led R&D. ‘Single channel’ (monopoly) marketing was abolished in 1995 at the behest of the industry. This allowed an easy shift from monopoly marketing and heavy Government intervention to a proper ‘market’. There was no ‘shock factor’ from policy reform for growers and the value chain because they had taken control of their own destiny.

Leaders in the South African wheat industry strongly resisted change and ignored the maize industry’s preparations for change.

Instead of ‘taking the bull by the horns’ and making market reform work for growers, the ‘leaders’ of the wheat industry in South Africa left the sector unprepared for policy change and as a consequence,

⁹⁸ Trends in the Grain Trade – Effects on the South African Food and Feed Milling Industry, International Grains Council Conference, London: 16 June 2004, Jannie de Villiers, Chamber of Milling, South Africa

⁹⁹ Marketing Act No 59, 1968 as amended

¹⁰⁰ Deregulation of agricultural marketing in South Africa: Lessons learned, Vink, N and Kirsten, J, May 2000, The Free Market Foundation, www.freemarketfoundation.com

¹⁰¹ <http://www.nda.agric.za/docs/Trends2000/wheat.htm>

the removal of the monopoly controls caused a turmoil and uncertainty that could have been avoided, as it was in the maize industry.

Since deregulation and after an unnecessarily disruptive period of adjustment, avoided by the foresight of leaders in the maize industry, the South African wheat industry has followed the path the maize industry took prior to 1995.

Of particular note is the role played by the wheat futures market, which has developed aggressively, to a point where the South Africa Financial Futures Exchange (SAFFEX)¹⁰² frequently trades up to 6 times the volume of the maize crop.

Managing risk in South Africa

The rapid development of the SAFFEX market has led to a very steep learning curve in the South African wheat industry and has resulted in the extremely rapid transmission of market information to producers, consumers and traders alike.

This learning curve would not have been so steep, had the industry leaders not let the industry down in the early '90's, when they refused to allow the industry to prepare itself for change, as the white maize industry did.

- The primary (cash) market in South Africa is now more actively traded and transparent than in the past, which is a significant benefit to grain consumers.
- The secondary (futures) market is the main source of risk transfer, allowing participants to manage their exposures efficiently.
- The tertiary (options) market is of particular benefit to consumers and growers. Both parties can insure their exposure in the market for a known outlay.

The SAFFEX is priced in Rand and encompasses world market price, ocean freight and currency impacts, as well as local supply and demand. SAFFEX also provides inter-month spreads for the management of storage rates, which were also controlled by the Government prior to 1997.

The market is secure, with a clearing house backing contracts. The SAFFEX market allows participation of various institutions for financing the South African crop (production and consumption).

The establishment of a similar market in Australia would provide grain growers with *more* risk management choices and encourage *more* financial product innovation. Such a market won't be developed while the export monopoly is still in place in Australia.

Was regulatory reform positive for the South African wheat industry?

In short, yes. Analysis¹⁰³ of the impact on the cropping sector in South Africa indicates that;

- There has been a shift from lower value to higher value crops,
- The growth in farm income has been higher since monopolies were removed,
- 'Total factor' productivity has increased,
- Grain yields in both the wheat and maize industries have increased,
- Foreign investment in agriculture has increased; and,
- Rural economic activity has increased.

The facts about the South African wheat industry following regulatory reform speak for themselves. The industry has grown and become more profitable. Many growers, who chose to grasp the opportunities presented by the reforms of 1996/97, have profited from the clear market signals and the hedging options that have emerged since then.

Next time you hear an Australian wheat industry 'leader' talk about the South African wheat industry consider two things.

First, think about the choices South African wheat growers have, compared with the lack of choice in Australia. Second, think about how these 'leaders' left the industry exposed by refusing to embrace change and what that failure to 'move with the times' ultimately cost South African wheat growers through the unnecessary disruption of the market and missed opportunities.

WEMA is doing what the 'leaders' of the South African wheat industry did in the early 1990's; resisting positive change. In doing so, Australia's own "Jurassic Park" pro-monopoly element is threatening to take the industry down a dead end road.

¹⁰² <http://www.safex.co.za/ap/>

¹⁰³ Deregulation of agricultural marketing in South Africa: Lessons learned, Vink, N and Kirsten, J, May 2000, The Free Market Foundation, www.freemarketfoundation.com

Wheat08.com

Commentary Promoting Reform of the Wheat Export Monopoly - #23 - 20 December 2007

The 'industry good' myth.

Now the new Government has publicly confirmed its reform of the wheat export monopoly will be implemented by mid 2008, attention has turned to the so called 'industry good' functions.

It was widely believed that AWB, as the manager of the wheat export monopoly, carried out a range of 'essential' activities for the good of the whole industry. Unfortunately this, like so many 'beliefs' associated with the wheat export monopoly, is also a myth.

What are the 'industry good' functions?

As the major exporter of Australian wheat, AWB undertook a range of customer and product support activities that supported its marketing program. This included promotion of AWB branded wheat, technical advice to customers on how to use Australian wheat and research into products that can be produced from Australian wheat.

The monopoly exporter provided product and customer support because, in a competitive market, such support is expected by customers. Exporters of barley, pulses and oilseeds from Australia provide similar support for their customers, wheat will be supported by them in a similar manner.

Other so-called 'industry good' activities that were not 'commercial' carried out by AWB included policy and regulatory advice to the Wheat Export Authority / Export Wheat Commission / Government and 'trade advocacy' advice.

Advice to the Export Wheat Commission in its role as regulator of the monopoly is no longer required. The 'trade advocacy' related almost exclusively to helping the Government defend the monopoly in global trade talks and will no longer be necessary. Other trade or market access advice to Government is already provided through existing consultative processes involving Biosecurity Australian and AQIS.

Technical support of Australian wheat, how it's used by customers and what products it's best suited for, is a commercial activity that should be carried out by the grain marketers as customer support.

Real 'industry good' activities.

There are only two non-commercial 'industry good' activities - varietal classification and receival standards setting.

Classification of wheat varieties can continue using the existing processes. New bulk wheat marketers can be included on the classification panel and management of the panel can be assumed by a current participant, or be incorporated into another process such as the NVT system.

The National Agricultural Commodities Marketing Association (NACMA), which already establishes commodity standards for the domestic grain trade, could take over setting of receival standards. Most, if not all, of the commercial and representative organisations in the industry belong to NACMA.

Establishing an 'industry good' organisation.

A new organisation formed to carry out 'industry good' activities is *not* needed.

After emerging from the stifling impost of the export monopoly, the last thing the industry needs is a new bureaucracy that will consume resources and become politicised.

'Representatives' in the industry who are calling for the Government to set up an Australian equivalent of the US Wheat Associates (USW) or the US Grains Council (USGC), have their eyes focused on how such an organisation might be used to 'control' the industry for their own ends, once their influence through the monopoly evaporates.

Put simply, the US model is not applicable to the Australian industry. Two major differences are the size of US wheat exports, annually in the region of 30 MT or more than double our 'average' export task and the fact that both organisations play a role in the implementation of US Government Farm Bill and Food Aid policy¹⁰⁴. Both organisations are funded by levies, so in Australia growers would be hit with an additional cost at the same time as fuel and fertiliser prices have gone through the roof.

Leaving *commercial activities* to the *commercial sector* will mean that each marketer can efficiently tailor service and support to meet the requirements of customers and markets.

A clear customer focus and a reduction in the cost of regulation, rather than a political focus and agrarian socialist rhetoric, will increase competition, which in turn will lead to better services for growers *and* customers. This is the right strategy for the future.

¹⁰⁴ US Wheat Associates. Wheat Letter, December 13, 2007 - Item 2.

Wheat08.com

Commentary Promoting Reform of the Wheat Export Monopoly - #24 - 21 December 2007

Chaos Theory – Debunked

The commitment by the Federal Government to a new bulk wheat exporter accreditation system has produced some predictable scare mongering about a “chaotic” season in 2008¹⁰⁵. These comments may provoke unease among growers, which is unfortunate, because they are totally without foundation.

The Minister establishes a deadline - and provides certainty.

In an interview with the West Australian newspaper on December the 12th, Federal Agriculture Minister Tony Burke promised he would end Australia's wheat export single desk before next season's harvest. He vowed to have the new system in place by July 1st 2008, so that the industry can prepare for the changes and growers can make marketing decisions for next harvest with confidence.

The Minister has also set a timetable for clarifying the outstanding bulk wheat export consent applications his predecessor consigned to the ‘do not disturb’ basket for political purposes pre-election. The \$3 million plus per year Export Wheat Commission (paid for by growers) has been tasked with obtaining updated information from consent applicants and reporting back to the Minister by January 15th. Expect decisive action soon after.

The monopoly causing chaos.

It's the monopoly that causes chaos and uncertainty and the most recent example of this power to disrupt is what occurred in WA last week¹⁰⁶ following the shock closing of the AWB #1 pool.

The decision by AWB was a commercial one made by that company, which is fair enough.

Unfortunately the pool closure prompted a domino effect of other organisations withdrawing their prices, simply because those prices were directly linked to the monopoly pool EPRs.

Within a day, tens of millions of dollars¹⁰⁷ were wiped from the value of millions of tonnes of unsold wheat. This left many WA growers furious. Insult was added to injury when, within 48 hours of the #1 pool closing, wheat prices reached record highs on commodity exchanges.

Removal of the monopoly will *simplify* the Australian wheat market. The industry will no longer be at the mercy of the commercial strategy of a *single company*.

Without the monopoly determining prices through the opaque national pool, the market will become more transparent. This transparency will develop through competition among companies seeking to buy wheat from growers.

Put simply, what happened in WA last week won't happen once the monopoly is removed.

Competition = Choice and Opportunity.

Growers in the east of Australia will continue to have the choices they currently enjoy in a market dominated by domestic consumption, where exports are the ‘icing on the cake’.

In SA and WA, where exports dominate, growers and the trade will be able to exploit a range of new opportunities, free from the impost of the monopoly. Growers in export reliant regions will start to receive ‘full value’ for their wheat, just as many barley growers in SA have this year following the removal of the export single desk in that state.

Under the new bulk wheat export system there will be no chaos - just more choice and transparency.

It's Time - Focus on commercial returns, not politics.

The wheat export monopoly is about politics, control and influence over the industry by a political elite. No-one farms wheat as a hobby – it's a commercial activity involving big outlays, big risks and occasionally, big profits. ‘Farming’ committees is a hobby for most agri-politicians and their lack of professionalism and insight is proving very costly for growers and the industry as a whole.

Getting politics out of the industry and focusing on *commercial outcomes* will mean that the political minorities, like the WEMA members, will lose their power to bully and manipulate.

The Roy Morgan poll of wheat growers released in November, the poor response to the WEMA ‘fighting fund’ appeal, the bickering between WEMA members, the Farm Weekly poll¹⁰⁸ and the declining membership of ‘representative’ organisations, clearly show that the vast majority of growers (more than 4 out of every 5) are not interested in politics and are not engaged in industry politics.

They are interested in the best commercial outcome for themselves. Which is fair enough, isn't it?

¹⁰⁵ The Weekly Times, 19 December 2007, Editorial, pg 16.

¹⁰⁶ December 10th to 16th 2007

¹⁰⁷ The price difference between the #1 and #2 pools was approximately \$20/T for the benchmark grade.

¹⁰⁸ Farm Weekly, 13 December 2007, pg 3.

Grains Policy Institute Commentary – ‘The Header’.

The GPI has continued to provide commentary and analysis in the form of regular commentary under the banner of *The Header*, rather than *Wheat08*, since January 3rd 2008.

The aim of the Header commentary is similar to the *Wheat08* newsletters, which is to balance the continued pro-monopoly rhetoric with facts and a perspective based on commercial reality.

A primary focus of the Header has been the politics surrounding the wheat monopoly and the entrenched political and agri-political interests that support the continuation of the onerous regulation.

The Header has also sought to highlight the successful implementation of regulatory reform of the barley export monopoly in South Australia, and the benefits that would flow to the national wheat industry from similar reforms.

The Header

Commentary and Analysis from the Grains Policy Institute

Number 1 – January 3 2008

Introducing the Grains Policy Institute.

The Grains Policy Institute (GPI) was formed initially as a vehicle for balancing the wheat export monopoly debate through the successful Wheat08 campaign, by several partners from the commercial sector of the grains industry.

The Wheat08 campaign focused on the myths surrounding the wheat export single desk and the attempts by state farming organisations to rescue the moribund export monopoly through the ill fated Wheat Export Marketing Alliance (WEMA) and the failed 'AusWheat' initiative.

Now that the Rudd Government has committed itself to removing the monopoly, there is no need to continue the Wheat08 campaign.

However the process of shaping the new export marketing regulations will be a battle, because the state farming organisations remain diehard monopoly supporters¹⁰⁹ that wish to *impose* outdated agrarian socialist policies on the wheat industry.

Opposing those attempts at political control will be individuals and organisations who support a market oriented industry and a commercial focus for the new wheat export regulations.

The main role for the GPI over the next few months will be to represent to the Government and to the industry at large, an enlightened and commercial focus for export regulation.

GPI Policies and perspectives.

One of the motivations behind the formation of the GPI is the feeling that, with the collapse of the single desk, the old representation structures that were closely tied to the AWB monopoly, in particular the Grains Council of Australia and its state farming organisation members, have lost their legitimacy and no longer have the confidence or the membership of the majority of growers and other industry players.

GPI is not purporting to represent the views of all grain growers or the entire commercial sector. GPI will represent the policy position developed in consultation with our supporters and our Policy Reference Group.

The advice we provide to the Government and others will be on the *creation of a more commercially focused grains industry*, where the customers, not politics, come first.

The policy positions and perspectives advanced by GPI will have two main themes. The first will be emphasising a *commercial focus* for policy settings and the second will be the *economic sustainability* of the grains industry.

As part of an expanded scope of issues examined by the GPI, we will be forming a cross industry Policy Reference Group and we will be using The Header and the GPI web site (www.grainpolicy.com) as the primary communication organs.

The Policy Reference Group will, for the first time in the Australian grains industry, bring together leading individuals from *all sectors of the grains value chain*, from growers to wheat consumers, to present a balanced view of the problems and opportunities that face the industry.

'The Header'.

'The Header' replaces the Wheat08 commentary as our new vehicle for industry commentary and will continue to challenge the 'orthodox' view of grains industry regulation and those who perpetuate the many myths surrounding the wheat single desk. 'The Header' will address relevant and pressing grains industry issues such as research and development, climate change, industry representation, industry development and economic sustainability.

So, as we enter a new year on the cusp of a new era for the wheat export sector, we are trying something different – a cooperative approach to problem solving and opportunity identification that leaves the old 'them and us' representative structures consigned to the dusty pages of history.

The Header is written by David Ginns, CEO of the Grains Policy Institute P/L. www.grainpolicy.com

¹⁰⁹ Only the South Australian Farmers Federation have publicly shifted their policy from supporting their wheat export monopoly. Their policy supports accreditation / licensing of multiple bulk wheat exporters.

The Header

Commentary and Analysis from the Grains Policy Institute

Number 2 – January 7th 2008

The 'spin cycle'.

In a Farm Weekly article late last year¹¹⁰, a spokesman for AWB raised the spectre of bulk handling companies and their storage and handling 'monopolies' being the latest 'threat' to the grains industry.

More of this type of manipulative spin can be expected over the next few months, as the old single desk allies (AWB, the state farming organisations and the Grains Council of Australia) combine to exercise influence over the process of reforming wheat export regulations.

A red herring.

The Wheat Marketing Act 1998 (Part 4, Section 57 (6)), states;

For the purposes of subsection 51(1) of the Trade Practices Act 1974, the following things are to be regarded as specified in this section and specifically authorised by this section: (a) the export of wheat by nominated company B; (b) anything that is done by nominated company B under this section or for the purposes of this section.

As a result of this provision in the Act, AWB was the only publicly listed company in Australia that had a legislated monopoly and an exemption from the Trade Practices Act.

It is somewhat ironic that the outgoing export wheat monopolist should be warning of the dangers of having an 'unregulated' monopoly in the storage and handling sector, the only sector of the industry AWB has not dominated or directly controlled.

Certainly an unregulated monopoly (and the AWB monopoly was unregulated¹¹¹) can be hugely damaging and there can be no better example of this than the Iraq – 'Wheat for Weapons' scandal.

The release of the United Nations Volcker report into the Oil for Food program in 2005 and the release of the findings of the Cole Inquiry in 2006 illustrated the great truism that monopolies can and do corrupt.

Unlike AWB, ABB, CBH and GrainCorp, are subject to extensive company law and competition regulation and this is the flaw in the argument put forward by AWB in the Farm Weekly.

All relevant competition laws administered by the Australian Competition and Consumer Commission (ACCC) and a range of Federal and State consumer protection laws that punish predatory pricing, collusion and uncompetitive behaviour apply to the bulk handling companies.

Access arrangements with market participants are currently in place or are guaranteed by existing contractual arrangements, or by agreement with relevant authorities.

Dialling up the spin.

The AWB spokesman in the Farm Weekly article claimed that the single desk "...protected grain growers from higher costs in bulk handling...".

In fact the opposite was the case. This claim is one of a number of discredited "monopoly myths" created by the pro-single desk spin doctors.

The Wheat Export Authority¹¹² found that "...that AWB(I) appears unable to use its market power to significantly influence country storage and handling costs" and "... AWB(I) pays more per tonne to AWB Grainflow and GrainCorp than other storage and handling providers. Of note is that AWB(I) pays the same as any non-AWB(I) traders to GrainCorp, more than the non-AWB(I) traders to CBH Ltd and less than non-AWB(I) traders to ABB Grain".

Rather than protecting growers from higher costs, the WEA found that AWB was paying itself the highest rates for storage and handling.

A fundamental point lost in the AWB spin is that storage and handling is a tonnage or 'through-put' business. The bulk handling companies charge for every tonne of grain they store and handle. Bulk handling companies are not going to deny access to particular market participants, as every tonne 'lost' from the system is revenue foregone.

¹¹⁰ Farm Weekly, December 20th 2007, "Handling monopolies in AWB sights".

¹¹¹ AWB and supporters of the single desk will argue that the Wheat Export Authority was the monopoly regulator. Unfortunately the WEA had no powers to influence the operational behavior of AWB. Its primary task was to report retrospectively on the performance of AWB as the manager of the national export pool.

¹¹² Wheat Export Authority, 2006 Growers Report, page 6.

The storage and handling providers are also not going to impose predatory pricing or undertake other anti-competitive behaviour to exclude particular market participants, a) because the law prevents such behaviour and b) the cost of 'getting caught' is too significant.

Still out to scare...

There has been a shift in tactics by the pro-monopoly forces, in recognition of the fact that they have lost the battle to retain the Stalin era export monopoly. The 'single desk cold war warriors'¹¹³ are now inventing stories about traders, marketers and bulk handlers 'behaving badly', claiming that this is a portent of life in a post wheat export monopoly world.

A recent example from Western Australia involves a claim from WAFarmers¹¹⁴ that CBH has been 'diverting resources away from its coarse grain marketing business to support its anti single desk campaign'. When asked by the ABC if there was any evidence to support the claims, the spokesman admitted there was "...no evidence..." to support the claims he was making.

The argument put by AWB in the Farm Weekly article about potential problems in the bulk handling network is similarly specious.

Re-regulation is not the answer.

The cost of storage and handling should not be confused with access to the storage and handling networks.

The companies that own storage and handling networks have to balance the cost of the services they provide against the cost of running their business, their legal obligations to shareholders to run a profitable business and the need to make a market competitive return for investors.

There are already problems in the logistics chain caused by under-investment, principally as a result of the monopoly. A range of investigations and reports into the grain storage and handling network over the last decade have pointed to under-investment, caused mainly by the presence of the monopoly. The WEA stated that¹¹⁵ "...The information advantages available to AWBL as gate-keeper have made it hard for industry to cooperate in solving coordination problems".

Any regulation of storage and handling access and pricing would be a *major impediment to investment* and thus massively damaging to the grains industry in the medium to long term.

The lesson from deregulation of the grains industry in South Africa is clear – removal of regulation on storage and handling increases the incentive for investment and modernisation, which drives efficiency and leads to lower costs.

Growers who deliver to silos with slow hourly intake capacities will attest to how much under-investment in storage and handling impacts on the efficiency of their farm enterprise.

If grower 'representatives', AWB and other traders take a short term view and call for regulation of storage and handling, they will ensure that under investment in this infrastructure continues and they will guarantee creation of a 'world's worst practice' logistics chain.

Let the market do what it does best.

In evaluating the statements made by AWB about re-regulation of storage and handling and the need to have infrastructure declared 'essential' by the ACCC, we need to examine AWB's own track record. In calling for regulation of assets it doesn't possess but wants access to, AWB is showing that the habit of being a monopolist (relying on regulation to force its will onto the industry), is hard to kick.

Removal of the wheat monopoly will quickly create 'competitive tension' in the value chain, allowing existing participants (like AWB), new entrants and possibly groups of growers, to develop alternatives to the existing storage and handling infrastructure.

This is a potential threat to the existing service providers and one that will impose significant discipline on their market behaviour. It is this 'competitive tension' that will provide the best 'control' of storage and handling costs, not regulation by Government.

If AWB wants access to storage and handling facilities, it should revise its existing commercial service contracts, expand its own network of Grainflow sites, or seek some other market based commercial solution to its problems.

Getting on with business in a new competitive environment should be AWB's primary concern, rather than fomenting doubt and uncertainty through its tired and discredited network of supporters.

The Header is written by David Ginns, CEO of the Grains Policy Institute P/L. www.grainpolicy.com

¹¹³ Weekly Times, 2nd January 2008, pg 14 'AWB must change or die'.

¹¹⁴ ABC Western Australian Country Hour, December 20th 2007.

¹¹⁵ Wheat Export Authority, Addendum to the Growers Report 2006, page 21.

The Header

Commentary and Analysis from the Grains Policy Institute

Number 3 – January 21 2008

Industry Good – Beware of the politics.

The announcement of an 'Industry Expert Group' (IEG) to advise the Agriculture Minister on how to address wheat 'industry good' issues has precipitated a flurry of interest and jockeying for position.

The Chair of WEMA has decried¹¹⁶ the IEG as a '*government committee and not an industry committee representing growers*', inferring that any findings put to the Minister will be illegitimate.

This condemnation is curious, because the IEG will be advising the Minister about grain *marketing*, not grain production. Few growers are commercially involved in wheat exporting, thanks to the export monopoly. As a consequence, there is little day to day experience of developing and sustaining commercial relationships with grain consumers within that sector of the industry. It will be interesting to see what *real* grain marketing expertise is included on the IEG.

The commentary swirling around 'industry good' and the desire by some to create a grains industry MLA or US Wheat Associates equivalent, highlights a strategic weakness that has hindered the commercial maturation of the grains industry.

The historic 'knee jerk' reaction to any change in the industry has been to set up structures -and then work out what those structures should do once established. This is the exact opposite to normal commercial practice, but to many in the agri-political sphere, the most important issue is who controls these industry structures, not what the structures can or do achieve.

It's putting the cart before the horse, and it's lazy policy making.

On the so-called 'industry good' functions, conservative, pro-status quo forces opposed to change advance the argument that 'industry good' activities must be done because they have been done in the past and we need a new structure to do them simply because there was a structure in the past.

Conservatives will also say the industry needs a 'strategic planning' capability. The best method of 'shaping the future' of the industry is to ensure that market signals from multiple exporters are communicated to growers clearly through pricing signals.

The dynamics of a more competitive market for the purchase of wheat from growers will ensure that the formerly opaque link between wheat production and transformation will become increasingly transparent, as exporters reward growers for quality and consistency.

Little apparent thought has been given to critically examining what AWB used to do under the banner of 'industry good'.

A rational examination of the 'industry good' activities will conclude that, with the exception of varietal classification and receival standard setting, they are normal commercial customer relationship management tasks.

AWB provided these services to customers *because it was the only bulk exporter of wheat from Australia*. New exporters will service customers with technical support, quality assurance, training and other activities that build on the relationship between buyer and seller, just like these exporters do for their barley, pulse and canola customers. On the R&D front, the GRDC will continue to fund research into wheat product development, as it does now.

Is the IEG destined to start its task with the cart and the horse already in the wrong order?

One suspects that the Chair of the IEG will have his hands full sorting out the hitching process.

Many applicants to the IEG will come with their conservative agenda already established, an agenda that seeks Government subsidies to establish a structure and *then* create regulations and 'controls' to ensure the new bureaucracy has something to do.

If there really is 'market failure' in the delivery of 'services', other than the genuine industry good activities of varietal classification and receival standard setting, (both of which are being addressed now by existing industry organisations), then that 'failure' will precipitate one of two reactions.

¹¹⁶ ABC Country Hour, January 9th 2008.

If there is a commercial opportunity, an entrepreneur will emerge to provide the missing service for a fee. Or, if the 'failure' becomes apparent in the area of 'common good', then the industry will react as it has done in the barley, pulse and oilseed sectors, when organisations acted cooperatively to address a 'common good' need.

Pragmatically, the Government should look to the formation of Barley Australia, Pulse Australia and the Australian Oilseeds Federation and conclude that the 'industry good' question can be addressed by the industry, without Government intervention or subsidy.

The real agenda of the grains industry agri-politicians is to form an organisation that will sustain them and their political platforms, as the single desk has done for decades.

The pro-single desk lobby have a grand vision of an 'industry good'-cum-regulator that will control how wheat exporters conduct their business relationships with customers.

The recent statement from the WEMA Chair¹¹⁷ "*...We realise the single desk might not be attainable, but there are other alternatives we hope to discuss with the Minister – perhaps Auswheat (WEMAs nominated single desk manager) could be involved in the marketing...*" validates this assertion.

History shows that such an organisation would have a board and numerous committees, offering salaries, sitting fees, travel expenses, free dinners, etc. and would be populated by state farming organisation nominees.

Acceptance by the Government of these proposals promises another bureaucracy, funded by growers and taxpayers, to intervene in a purely commercial relationship. Growers will see no benefit and marketers and end users will face a web of red tape. The only winners will be the agri-politicians.

The conservative agenda behind creating a wheat 'industry good' structure is not about advancing the interests of the wheat industry. It's about finding a way of exerting political control over the commercial marketing of wheat and, in the process, replacing the political control lost through removal of the monopoly.

How this can be justified, when growers don't own the wheat sold to feed and flour millers and livestock producers, is a question that has not been answered by those who advocate 'grower control'.

So the new game in town is to convince the Government that growers should control the commercial relationship between a marketer and a buyer.

This doesn't happen in any other sector of agriculture, so why is wheat different?

The Header is written by David Ginns, CEO of the Grains Policy Institute P/L. www.grainpolicy.com

¹¹⁷ 'WEMA to keep on fighting'. The Land, January 17th 2008, Pg 15.

The Header

Commentary and Analysis from the Grains Policy Institute

Number 4 – January 28 2008

Mission Impossible - saving the monopoly.

In early 2007 there were major ructions within the Grains Council of Australia (GCA), with representatives from Western Australia and NSW failing to convince the other three GCA members to 'tow the establishment line' on wheat marketing. The fallout led to both organisations refusing to pay their membership to GCA, so their membership of the Council was forfeited¹¹⁸.

Grains Council had been an uncritical supporter of AWB and a staunch defender of the wheat export monopoly for decades and the fallout from the Oil for Food scandal seriously compromised the organisation's ability to credibly represent policy positions to the Government or Opposition.

The GCA split in the second quarter of 2007 saw the formation of the Wheat Export Marketing Alliance (WEMA), a group consisting of current and former GCA members, created initially to defend the wheat monopoly and then, post July 2007, to form a new 'grower owned and controlled entity' to manage the wheat export monopoly at the behest of the then Coalition Government. This group is now styling itself as the peak grower body, meaning there is two of them.

Political dilemmas.

In mid 2007, the Coalition Government faced an election seriously trailing in the polls, so 'Coalition unity' was a primary objective of the then Prime Minister. The Nationals see the monopoly as a 'touchstone' and the desire for unity allowed the Nationals to dictate on wheat marketing.

The Government faced a dilemma - how could it appease the Nationals while demonstrating to the community that it was responding to the Cole Commission and the Oil for Food imbroglio. It decided to amend the Wheat Marketing Act and 'allowed' grower representatives until March 1st 2008 to form a company capable of trading or overseeing the export of up to \$4 billion worth of wheat per year.

Amendments to the Wheat Marketing Act were introduced to the House on June 14th 2007. They extended the powers of the Agriculture Minister to grant bulk wheat export consents until the end of June 2008 and deregulated the container export trade.

The amendments introduced a 'quality assurance' scheme for containerised exports, a measure the Parliamentary Library¹¹⁹ described in the following terms. *"...In relation to the proposed quality assurance system for bagged and container (non-bulk) exports, no explanation has been given as to the deficiencies in the existing body of commercial/contract law which warrant special treatment of rogue traders. Exports of other agricultural and food products such as meat, rice, sugar etc do not involve a targeted approach to ensure exporters comply with the provisions of their contracts as a means of preserving Australia's good reputation as a supplier..."*

Political theatre and high farce.

The announcement that growers, through WEMA, would be given the opportunity to form their own 'grower owned and controlled export monopoly entity' was a piece of pre-election political theatre designed to keep the Nationals quiet.

It was a task WEMA members were totally unprepared for, made harder by the fact that monopoly conservatives had to be pandered to. The structure had to smell, feel and taste like a monopoly; in other words be a carbon copy of AWB pre stock exchange listing, without actually being AWB...

WEMA, a group of farmers and part time agri-politicians, overnight became a group 'capable' of forming a \$4 billion international grain trading business. They had no financial backing and no relevant skills or experience and to make matters worse, there was no agreement on the model for the 'entity' they were going to form. At one stage, there was at least 3 different concepts in play, and one member (SAFF) publicly opposed the retention of a monopoly.

WEMA members had no concept of the enormity of the task they embarked on, but that didn't stop them talking up the certainty of their success. They were so confident of success that at one stage the Chair of WEMA publicly threatened critics that if they didn't stop then they would not get to 'deal' with their monopoly company, Auswheat.

¹¹⁸ Both organisations publicly stated that they had refused to pay their membership fees to GCA, but were eventually obliged to do so for legal reasons.

¹¹⁹ Parliament of Australia, Parliamentary Library, Bills Digest, 186, 2006 – 07.

A compliant media didn't ask any of the hard questions that needed to be asked, nor did it take time to critically examine the statements or claims made by WEMA. For example, no one asked if the new monopolist would pass the routine financial probity checks demanded of public listed companies when they sign multi-million dollar service agreements.

Bulk handling companies would have been required to assess Auswheat in this manner before agreeing to store and handle wheat on its behalf. The fact that, with no credit rating and no capital, the WEMA entity would have failed any of these tests seems to have passed an uncritical media by. Thus, an undeserved illusion of credibility was afforded WEMA.

Then the world shifted...

The election of the Rudd Government on November 24th 2007 changed the landscape in which WEMA had to operate. Labor went into the election with a policy that was clear – if elected it would end the monopoly and allow multiple bulk exporters of wheat under an 'accreditation' scheme.

The new Prime Minister had been intimately involved in setting this policy direction. It was the 'Wheat for Weapons' scandal that provided the then Opposition Spokesman for Foreign Affairs the platform from which to showcase his leadership credentials.

Immediately after the election, the WEMA Chair announced the monopoly 'dead'. This prompted a furious backlash from the WEMA conservatives (WAFarmers, NSW Farmers and the Wheat Growers Association) and a back flip from the WEMA chair, who had to hurriedly withdraw his pre-emptive (but totally accurate) obituary for the monopoly.

Once more for old times sake...

Today we have the curious spectacle of WEMA members publicly acknowledging that the monopoly is 'finished', following unequivocal statements from the Minister that the Government would be implementing its policy to remove the monopoly, while vowing to 'fight to the death' to retain the monopoly they acknowledge is doomed. Part of this fight now involves lobbying the Government to retain the monopoly for one more year, a platform they have convinced the WA Agriculture Minister¹²⁰ to publicly support.

The arguments put forward are that there is 'no organisation to market Australian wheat' or 'the new regulator is not formed and not ready to accredit exporters' and that there is 'no time to achieve either', so growers won't plant wheat as a result of the uncertainty; all totally fatuous arguments.

They are based on the notion that marketing of wheat has to be centrally controlled or coordinated; a fervent desire of the conservative elements in the industry.

On the matter of the regulator, the Government simply has to replicate the bulk barley exporter licensing scheme that is working in South Australia.

Given that the *same companies licensed in South Australia for the export of barley will be applying to export wheat in bulk*, accrediting them using the SA system as a template will allow the uncertainty over who will and won't be exporting bulk wheat to be clarified before the end of August.

Prospective new exporters of wheat have *in place now* all the trading, finance systems, risk management products and customer relationship resources needed. The new exporters could start tomorrow if the wheat was available to be exported.

These companies have customers who want to buy wheat from them. They've received requests for supply of wheat from AWB customers and customers AWB never supplied, some container customers want to shift to bulk shipments and they are able to 'plug in' to the tendering processes major buyers like Pakistan, Egypt, Iran, Iraq, Sudan and Japan use. AWB will also be active in the market in 2008, with its existing customer network.

WEMA members still cling to the vain hope that the export monopoly, their platform for politicising the grains industry, can survive. The self delusion of WEMA members extends to believing they can convince the Government to break their election promise and implement the 'touchstone' National Party policy of retaining the wheat export monopoly.

The WEMA back up plan is to bet on National Party Senators blocking the Government's reforms in the Senate. If they do this, it will demonstrate the real motivations of both the farm 'leaders' and the Nationals – a desire for political power at the expense of farmers.

The Header is written by David Ginns, CEO of the Grains Policy Institute P/L. www.grainpolicy.com

¹²⁰ 'AWB best to handle 2008 grain pool: Chance'. The West Australian, January 21st 2008, Pg 16.

The Header

Commentary and Analysis from the Grains Policy Institute

Number 5 – February 4 2008

Bridging the political and philosophical divide – a pipe dream?

Picture this – representatives from the grain production, storage / handling, marketing and consumption sectors, sitting in a room cooperatively developing policies to jointly put to the Government and statutory agencies. These policies would be commercially focused, pragmatic and publicly and privately supported by all parties. Sounds like the 'ideal world' – but unfortunately for the grains industry, it's a pipe dream.

This vision of a cooperative 'cross value chain' peak body is far from the reality of the grain sector today, due to the deep division that exist between political and commercial philosophies.

As the debate on wheat marketing and company 'ownership'¹²¹ grinds slowly on, the divisions between these opposing philosophies make détente appear like a mirage on a distant horizon. The conservative pro status-quo political forces guarantee that divisions grow wider as positions become more entrenched, and that the mirage of a 'cooperative' approach will stay a distant, tantalising prospect.

This is a great shame, because much of what occupies the industry's political agenda is actually low on the list of priorities for almost 9 in every 10 growers. The research carried out for GPI by Roy Morgan Research¹²² in October 2007, clearly shows where growers' priorities lie.

Priority	Frequency ¹²³	Response
1	68%	Drought and climate change related.
2	45%	Financial returns and profitability.
3	35%	Marketing options and prices
4	24%	Production and input costs.
5	23%	Crop yield.
6	11%	Uncertainty over the single desk.
7	6%	Grain size and quality.
8	5%	The economy and exchange rates.
9	5%	Wheat variety research and GM crops.
10	4%	Crop diseases and rust.
11	4%	The future.
12	4%	Fulfilling forward contracts.
13	4%	Unhappy about abolition of the single desk.
14	3%	Water.
15	3%	Weather impacting on harvest.
16	3%	Overseas trade.
17	3%	Happy about abolition of the single desk.

The Roy Morgan research demonstrates that;

- 1 – When asked about their 3 main priorities, growers clearly nominated factors that directly affect the day to day economic viability of their farming enterprise.
- 2 – There is a clear economic or commercial focus at the front of growers' minds.
- 3 – The question of the single desk, when put into the context of growers' overall priorities, is not top of mind. This differs markedly from the impression created by the agri-political agenda.

These findings indicate a significant difference between growers' personal priorities and the political priorities of groups that purport to represent them. The Roy Morgan research shows that the intense focus on the export monopoly and grower 'control' of publicly listed companies, has masked other issues growers' consider important.

¹²¹ The Shareholder structures of both AWB and GrainCorp.

¹²² Grains Policy Institute – <http://www.grainpolicy.com/analysis/morgan/morgan.htm>

¹²³ The percentage response rate indicates the frequency at which a particular response was given. Each survey participant was asked for their 'top three' priorities; i.e. there are a maximum of 1500 responses in total.

The Morgan research intentionally *didn't* ask about the single desk. Thus any responses related to that issue were given in context *with all the other priorities* raised by growers. The research was able to establish the importance of the single desk issue in the context of *all other issues* growers' believe are important to them.

The results bring into stark relief the claims that 70% or 80% of growers support the single desk. No credible empirical evidence has been produced to support this contention, and the Roy Morgan research reveals the flaw in such claims, with only 11% regarding the single desk as a top 3 priority.

Time to change policy fundamentals.

The core policy positions of most grower groups, support for export monopolies and non-equity based 'grower control' of publicly listed companies (and thus their commercial activities), are fundamentally at odds with the basic principles upon which a modern economy is founded.

On the matter of the wheat monopoly, the Federal Government has made it clear - the monopoly is to be removed. Grower representatives have to accept they have lost the battle to retain it, remove the policy from their books and get on with representing their constituents.

The philosophy of 'grower control' of marketing is one that defies rational analysis. Growers sell grain and other commodities to intermediaries in exchange for money. As a result they no longer have legal title to the commodity they produced. With no legal title, how can grower representatives demand that the former owners control the marketing of a commodity they don't own?

The same lack of logic applies to 'control' of publicly listed companies. Shareholders own these companies. They invest in them, provide operational capital, carry the risk of losses and are rewarded through dividends.

The expectation that a grower, who may have no equity shareholding or is a minority shareholder, having a 'special right' to control a company because that grower sells something to that company, is an illogical and unreasonable proposition.

It's a proposition that needs to be abandoned and replaced with one that reflects the standards that apply to the rest of the community.

While agri-politicians continue to espouse policies that are at odds with the reality of the international and domestic grain markets, consumer demands, financial markets and investor requirements, they will continue to be at loggerheads with those who are focused on commerce, not politics.

Sort out grower representation first.

Before embarking on a grand plan to form a cross value chain representative organisation, grower groups need to sort out their own "peak body" problems.

The bickering between grower representatives that blights national representation must be resolved before a broader policy development process can be considered. The absurd spectacle of the traditional organisation, Grains Council, having 3 state members and a rival group having five members, with two groups having a foot in both camps, does no one any good.

One suspects the primary motivation for wanting 'commercial involvement' in a new peak body, is not a willingness to focus on commercial policies, but the fact that the commercial sector has money and is being asked to 'bail out' the existing moribund structures.

The fact that state farming organisations can no longer support an independent, grower-only grains peak body should not be the motivation for including commercial organisations in a policy development forum. The motivation should be a genuine desire to have commercially focused policies.

The logical and most economically effective answer to the current representation woes is to dissolve GCA and transfer its assets to the National Farmers Federation (NFF). This would strengthen the NFF and save its members, shared between GCA and NFF, several hundred thousand dollars a year.

Until agri-politicians relinquish their anti commerce policies, (monopoly marketing, and grower control of publicly listed companies) and sort out their own representational mess, the aim of forming a constructive cross value chain policy development process will continue to be the stuff of consultants' reports, workshops, forums and wish lists.

While the 'ideal world' of cross value chain cooperation is noble, a lot of pragmatic soul searching has to occur within the grower representation circles before reality reflects the fantasy.

The Header is written by David Ginns, CEO of the Grains Policy Institute P/L. www.grainpolicy.com

The Header

Commentary and Analysis from the Grains Policy Institute

Number 6 – February 11th 2008

PERSPECTIVES ON CHANGE: THE SOUTH AUSTRALIAN EXPERIENCE

The Grower:

In 2007, the South Australian Government removed the state's barley export monopoly, an arrangement introduced in 1947 with the first Barley Marketing Act. The Monopoly was managed by the Australian Barley Board, now ABB Grain Ltd.

A review by the National Competition Council¹²⁴ in 2004 found the system did not meet its National Reform Agenda. As a result, the South Australian Government was forced to review the barley export monopoly¹²⁵, and growers and the Government were forced to develop a new system.

In this interview, former Chair of the South Australian Farmers Federation (SAFF) Grains Council, Brett Roberts, discusses the development of the new system, and why it should become a template for the new system of wheat export marketing currently being developed by the Federal Government¹²⁶.

A little history:

According to Brett, the catalyst for change was the NCC report from November 2004. "The Barley Marketing Act in South Australia was deemed to be uncompetitive by the National Competition Council. That went through a review process, and a public benefit was not displayed as a result of that review process. So the South Australian Government suffered a competition penalty of about \$3 million a year", Brett said.

That penalty spurred the Government and the SAFF Grains Council to act. "Grains Council faced up to political reality and realised it was an unsustainable situation and that the Government was going to take some action to stop the competition penalties affecting their budget. We went to the Minister for Agriculture and said we might be able to get something out of the situation".

A Barley Marketing Working Group, chaired by retired Speaker of the House of Representatives, the Hon. Neil Andrew MP, consulted with the a broad cross section of the grain growing community and the value chain during 2006, and, in its report in December 2006, recommended to the South Australia Government a new system of licensing multiple exporters of bulk barley from SA.

The new system, regulated by the Essential Services Commission of South Australia (ESCOSA) was introduced in July 2007.

Fear of change:

Brett said the single desk for barley offered comfort to some growers, who were concerned about the impact of change. "Growers felt the single desk added strength to the barley pool in SA. There were concerns that, under deregulation, value would be lost. That's why we reviewed the legislation and the Government brought in legislation that actually complied with National Competition Policy".

However, the impact was immediate. "It did have the benefits of a true market place where you had the benefits of true price discovery and the operators who wanted to come to SA had to jump through some hoops before they could operate out of the State", Brett said.

"It means that any operator who offers a service in SA has had to comply with the accreditation process. They have to have prudential checks, they have to adhere to some quality standards and while it is very close to full deregulation, the fact that there is a licensing arrangement means we can revoke the licence if that participant doesn't play the game".

¹²⁴ Commonwealth, State and Territory governments signed an agreement in April 1995 that formed the basis of National Competition Policy. The policy is overseen by the National Reform Agenda. A review of the implementation of the reform agenda as it applied to the Australian grain market was carried out on behalf of the National Competition Council in November 2004 - NCC Occasional Series, A Review of the NCP Grain Market Reforms, ACIL Tasman, http://www.ncc.gov.au/pdf/NCCAciITasmin_Grain.pdf

¹²⁵ South Australian Barley Marketing Working Group, PP 1.

¹²⁶ Full transcript at <http://www.grainpolicy.com/commentary/Interviews/Roberts.htm>

Impact on growers:

Brett says the impact on growers' operations and decisions was immediate. "The first thing we saw under deregulation was competition for growers' barley and different products being provided to growers.

We saw with the forward price market very heavy competition which actually took away the spread in prices between Port Lincoln, Adelaide and Geelong, which we had always taken for a given, except for the dynamics of a higher domestic demand in the eastern states. That came as a surprise to a lot of people, particularly on the Eyre Peninsular, where they always thought they were in some sort of cash price backwater".

Brett Roberts says the major benefit was in pricing information for growers. "As individual growers, we saw true price discovery. It means that we can watch the daily cash price and jump when we see fit. There is a plethora of advice out there and market consultants keeping you in the picture. So long as we have true price discovery and transparency, an arbitral marketplace has been displayed in other industries to be a better way to go".

There were also benefits for all South Australian taxpayers. "In SA we kept an eye on costs all through that process, which is why we use the current facility provided by ESCOSA in SA. I think it's estimated to cost around \$100,000 a year to run the scheme, and it takes away most of the politicisation of the commodity".

Lessons from the South Australian barley marketing system for wheat:

Brett says the principles of the South Australian barley marketing system should be applied to the wheat export market.

"It's a pretty good model. It complies with the Government of the day. It's not forever and a day relying on political pressure to maintain it, which is prudentially unsustainable. It takes away the politicisation of the commodity", Brett said.

"I think we've got to take a lesson from other parts of the world. When you look at the reforms of the Common Agricultural Policy and the redirection of the US Farm program, they move away from politicising the commodities and there are more generic things, like the environment for example. The politicising of specific commodities was done years ago and I think wheat is one of the last ones to move away from that."

"What we badly need for the Australian wheat industry is a truly contestable, transparent, arbitral marketplace that allows us to get the true price discovery that drives value chain innovation, and we do that with information flows with our customers. We service our customers the best way we can".

"In the same breath we need the right amount of information flows that does not stifle supply chain investment. We can burden the industry with a costly tell-all information flow system and re-politicise that process but we have to keep in mind that to invest in the supply chain there has to be some protection of peoples' intellectual property".

According to Brett, the legislation mooted by the Federal Government that will replace the national wheat export monopoly, managed by the Australian Wheat Board from 1939 to 1999, then by AWB Ltd. from 1999 onward, can't become law soon enough...

"It will bring it into line. Growers may well think that things are happening too fast, but quite simply I think that's a catch up because we've hung onto the old legacies for too long".

The Header

Commentary and Analysis from the Grains Policy Institute

Number 7 – February 13th 2008

AWB first round reform failure: first, the bad news.

The failure of the vote to reform the AWB constitution and share structure was a short term win for short sighted and self interested agri-politicians, desperate to hold on to the last vestiges of their political control of the grains industry, but they only prevailed by the slimmest of margins. This was the bad news out of the February 12th AWB shareholder vote.

Second, the good news.

The good news was the level of support expressed for the sensible reforms the AWB Board proposed. The A class shareholder vote showed 2/3 support for reform. When combined with B class shareholder support, the result was a resounding 88%¹²⁷ of shareholders voting in favour of reform.

Approximately 23% of almost 18,000 A class shareholders voted. The 2/3 vote in favour of reform means that about 8% of eligible wheat growers (1500) voted to retain the status quo. This is a far cry from the oft quoted figure of 80% support for continuation of an AWB managed wheat monopoly.

The result showed that the majority of growers – 90% - are able to look at a reasonable argument for change in a mature way and this is a very positive sign for the industry.

Importance of reform to the industry.

Both of the reforms put to AWB shareholders are important, not only for the company, but for the industry at large. The Australian grains industry is a small part of a large global industry that has to compete with other even larger industries for finance and capital.

The outdated AWB constitution and shareholder structure 'turns off' potential investors and finance providers. This leads to increased uncertainty which flows through to lower credit ratings, higher risk ratings on money loaned and thus higher finance costs.

This casts a shadow across the rest of the industry, impacting on the borrowing risk ratios of other public listed companies seeking finance for grain accumulation and capital from investors.

The 'turn off' factor, combined with the current 'credit squeeze' caused by the sub-prime problems in the USA, increases the cost of finance and makes lenders more risk averse. This flows through to growers in the form of higher finance costs and lower share values for companies in which they have an investment.

Some may think they are acting in the interest of growers by opposing change, but they are in reality hitting them where it hurts the most – in the hip pocket.

The future.

AWB will never again be the colossus standing astride the industry flexing the muscle the monopoly gave the company. The negative market impacts of the monopoly will no longer be apparent post July 2008, when the Federal Government introduces its new wheat export regulations.

However AWB will continue to be a force in the industry, if the agri-politicians let it. AWB has an established domestic and international presence, but its future depends on removing the politicisation of its corporate structure and its board.

Commercial support from growers in a more competitive market will also play a major role in the future of the company. AWB's 'first purchase' market share of wheat from growers has fallen from over 90% in the late 1990's to about 25%.

Maintaining or increasing that market share will be a challenge for AWB management. The reforms, defeated at the first round on February 12th but to be revisited later in 2008, will play a crucial role in the future of the company and the industry at large.

Lumbering AWB with the 'flat tyres' of an outdated constitution and shareholder structure, is not going to help the company in the race for market share and profitability that will emerge with the introduction of the new wheat export arrangements.

The Header is written by David Ginns, CEO of the Grains Policy Institute P/L. www.grainpolicy.com

¹²⁷ AWB to make another attempt to scrap dual share structure, news.com.au February 12th 2008

The Header

Commentary and Analysis from the Grains Policy Institute

Number 8 – February 18th 2008

PERSPECTIVES ON CHANGE: THE SOUTH AUSTRALIAN EXPERIENCE

The Company:

In the second part of an occasional series of interviews with industry representatives, we examine the impact of the removal of the South Australian barley export monopoly on established grain industry participant, GrainCorp. Sam Tainsh, General Manager - Marketing at GrainCorp, provides a commercial perspective on the change.

Choice – A win - win:

According to Sam, the impact of deregulation was enormous, and immediate. "GrainCorp was able to participate in the SA barley market which meant offering cash prices to growers, and we were able to launch our barley pools in SA, which was the first alternative pool to ABB that barley growers in SA had ever seen."

Sam says the changes to the regulations were a win for growers and the trade. "There was an alternative, and everyone wants choice. No-one wants to think they only have one alternative or one person to deal with. A lot of growers might have thought the alternative wasn't that good, or didn't use it, but there were many who did - they liked to see (the) choice".

Reduction in risk and red tape:

While the benefits of the new system for growers were obvious, some of the benefits for consumers were more subtle.

"The advantages of the structure that SA set up was that there weren't any regulatory hurdles that interfered with us going out to offer growers new products. In international commodity markets there are a lot of uncertainties and the less regulatory or political risk there is, the easier it is to manage some of the other risks. Ultimately that's the value for SA farmers.", Sam says.

The South Australian system compared well with the barley marketing system in Western Australia. "Whenever people have to 'price' risk in doing business, that price risk is in margin. If you have taken away regulatory risk, that reduces some of the risk and correspondingly some of the margin. You can't really put that into hard dollars and cents but it is a reality."

"In contrast to the West Australian system, if you apply for a permit you can't go buying a lot of grain until you know you've got the permit. Sometimes that depends on the size of the crop, sometimes you're not successful in your permit so you have to withdraw your prices, whereas in South Australia that wasn't a problem".

Applying the South Australian barley system to wheat exports:

For GrainCorp and other companies that buy and sell grain, there are clear advantages in applying the principles underpinning the South Australian barley marketing template to wheat exports. Sam Tainsh says the principle advantage for everyone is the detailed prudential assurance process required for potential exporters.

"The application to the ESCOSA¹²⁸ was very comprehensive. It was about an inch thick and they wanted a lot of information. It's a very good document, so there was a lot of work compiling that document. And I commend the SA Government frankly, but once that was completed there was no red tape. It was up to you as a company to engage commercially with the farmer and to do the same with ABB from a bulk handling perspective, so you have places to put the grain and move the grain.", Sam says.

"I think that prudential assurance for the wheat industry is critical. Farmers' business is hard enough without them being at risk of people not paying them for their grain, so it's critical for the producers' side of things as well as it for other participants, be they domestic consumers or buyers, or international buyers that are taking the grain to export. So making sure you have viable well managed participants in that market is critical. You look at the ASX – they have to do the same in the markets they regulate. So the template that was set in South Australia is perfect for what we could roll out in the Australian wheat industry in a new environment."

¹²⁸ Essential Services Commission of South Australia.

The cost of managing the SA barley exporter licensing system is about \$100,000 per year. A national bulk wheat export accreditation scheme would be assessing the same companies for essentially the same purposes. Reducing the cost of wheat export regulation from \$3 million plus per year is a priority for commercial enterprises such as GrainCorp.

"It's possible – it would be larger than \$100,000 because of the number of applicants and the tonnages. That's applicable with the larger size of the wheat crop in Australia anyway. But it could be run for a similar proportion of cost. I think it's really a credit to the SA government that they've set up such a good template. I think it's a very efficient way to set up those necessary protections".

Control, certainty, transparency:

The South Australian template, applied to the export wheat market, would provide greater certainty for consumers. According to Sam, "...it gives regulatory and political certainty. Everyone would know what the ground rules are and what standards they would have to meet, as a company, to be approved as an exporter, so that's a good thing."

"If people are successful in being approved they can go about setting up their commercial arrangements, offering products to growers and working out supply chain efficiencies if they need to, because ultimately that's a major part of what the grain markets are."

The system also provides growers with greater control over the business of growing export wheat.

"Growers have choice, domestic consumers have choice, international customers have choice, and that choice is driven by the most competitive offer they can get in the market. And that's a credit to the SA growers. They hadn't had a lot of experience of grain marketing. They probably had a little experience with their canola in the last 10 years, but they've adapted to it very well. Contracts and market volatility meant a lot of challenging things this year, but it enables people to control how they run their business and that would be the focus for people if they became an approved exporter."

Knowledge is power:

One of the immediate effects of the deregulation of the barley market in South Australia was an enhanced flow of information to growers, facilitating more timely decision making.

"We sent out a fax stream to growers daily or weekly, so immediately they had an alternative source of information. The barley market was extremely volatile because there was a very short crop in eastern European areas this year which put prices very high. Added to that, we had a very serious drought in Australia, so growers were getting a lot more information that would have challenged a lot of them. If they were concerned, they could still market via the traditional pools."

"A lot of growers who would have previously received information from ABB only, had 4 or 5 other sources of information this year, on which to base their marketing. They also had much more accurate price signals. The price moved every day, quite dramatically some days. As well, there are prices now for next year's barley, so they have an indication of what barley prices are for next year which is almost 12 months ahead of when they produce the crop, but only 3 or 4 months ahead of when they are making planting decisions. It's been a dramatic increase in information", Sam Tainsh says.

The result has been clear signals, clear pricing information, and the capacity to be one step ahead...

"Previously, they got a pool estimate which generally had a range on it, so there was an estimate with a \$10 or \$20 range through the pools. I think ABB updated that maybe weekly or fortnightly through harvest and then weekly or monthly thereafter. So it was a very slow, unresponsive pricing mechanism. As well the costs in that pricing from ABB at times weren't very transparent. Growers are now getting prices daily, knowing exactly what they would get for a feed barley grade or malt barley grade at their nearest depot. So that gave great clarity to them".

(The full transcript of the interview is available at www.grainpolicy.com)

The Header is written by the Grains Policy Institute P/L. www.grainpolicy.com

The Header

Commentary and Analysis from the Grains Policy Institute

Number 9 – February 27th 2008

It's time for the Liberals to stand up for their constituents and support wheat reform.

It's an unfortunate perception in Australian politics that the National Party 'owns' regional and agricultural issues. As a consequence, it's assumed that the Nationals also 'own' the regional and agricultural vote. They don't. The Liberal Party represents seats in which two thirds of all wheat is produced. The Liberal seats of O'Connor and Kalgoorlie in WA, the former held since 1980 by Liberal Party firebrand Wilson Tuckey, produce close to a quarter of the value of the total Australian cereal crop¹²⁹.

So, the perception is a long way from reality, particularly when it comes to grain, and specifically wheat production. One of the untold stories of the wheat export marketing debate is the failure by the Liberal Party, during the Howard Government, to stand up for Liberal Party supporters in wheat growing seats.

Wilson Tuckey, to his credit, has been a vociferous critic of the wheat export monopoly and the structure of the privatised Australian Wheat Board for over a decade. A trawl through Hansard, media statements and correspondence from 1997 and 1998, shows that Tuckey accurately predicted the problems that would beset the privatised monopoly over the ensuing decade, culminating with the 'Wheat for Weapons' scandal uncovered by Paul Volcker in 2005 and Terrence Cole in 2006.

Mr Tuckey was almost a lone voice in the Liberal Party and the Howard Government, challenging an arrangement that allowed the Nationals, under successive Agriculture Ministers Anderson, Vaile, Truss and McGauran, to 'own' wheat marketing and use the monopoly as a prop for National Party support, through State Farming Organisations, in Queensland, New South Wales and Victoria.

Dr. Nelson's tests.

The introduction of the Rudd Government's reform of the wheat monopoly shapes as a test of the Leader of the Opposition's leadership and economic credentials.

Dr. Nelson has to stare down the Nationals, who will seek to prolong the agony of the wheat industry by binding their senior Coalition partner to opposing the wheat reforms in the Senate. Giving in to the Nationals, as Howard did for 11 ½ years, would be an abrogation of the Liberal Party's responsibility to Liberal Party voters in two thirds of the wheat growing seats across Australia.

The test for Dr Nelson's economic credibility is just as significant. He has the choice of leading his Party in support of a policy that agrees with basic Liberal Party economic principles, or choosing to support the continuation of a monopoly introduced at the commencement of World War 2.

Removal of the monopoly will create a more competitive market for the purchase of wheat from growers, in the process giving growers more market power and greater choice. This new competition will stimulate investment in infrastructure (urgently needed in NSW) and unleash a wave of customer service initiatives that will benefit growers and domestic and international consumers of Australian wheat. Investment in the supply chain will grow and efficiency and competition will drive down marketing costs

Removal of the monopoly will give growers and wheat consumers the right to choose who they deal with in a more competitive market. This right to choose is a principle that has historically underpinned the economic philosophy of the Liberal Party.

The choices facing Dr Nelson are stark. He must either support the future or the past. Dr Nelson can choose to look backwards and give in to the National Party in the hope that 'Coalition unity' can be retained, but, in doing this he will betray Liberal Party voters in wheat producing seats.

The alternative is to demonstrate the sort of leadership shown by the Prime Minister and Minister Burke on this issue, in the face of scaremongering from an entrenched conservative political minority. Supporting the Government's reforms and allowing the industry to (belatedly) enter the new century with a market based on robust competition and commercial principles is the best outcome for the wheat industry, the Liberal Party, its supporters in two thirds of wheat producing seats and the Australian community at large.

The Header is written by David Ginns, CEO of the Grains Policy Institute P/L. www.grainpolicy.com

¹²⁹ ABARE 2005/06 production figures. Seats of O'Connor and Kalgoorlie total cereal production values approx. \$1.7 bn, total Australian cereal crop valued at approx. \$7.2 bn.

The Header

Commentary and Analysis from the Grains Policy Institute

Number 10 – March 3rd 2008

The Nationals – time to re-invent

The looming changes to the wheat export legislation present an opportunity for renewal by the National Party at a Federal level. Forensic examination of the swirling politics behind support for the export wheat monopoly, reveals that the Nationals' policy was cleverly captured by the "old AWB"¹³⁰ and its manufactured regional supporter base, the 'roundtable' and the AWB 'consult groups'.

The lot of a backbencher is never an easy one, particularly those who have extensive regional electorates. The "old AWB" invested heavily in a highly successful PR campaign to mobilise a small band of very noisy, dedicated and well organised activists. These activists, through dedication to their cause, managed to shout loudly enough to drown out other voices in National Party held electorates. They were successful in convincing National Party MPs that they represented a majority view. The old adage that the squeaky wheel or the loudest voice gets the most attention was particularly apt when applied to wheat marketing.

A parallel to this can be found in the noisy minority who vociferously oppose GM technology. Just like the pro-monopolists, they sound like a convincing majority, but in fact are a tiny handful of self interested activists.

Since the demise of the "old AWB", a number of developments have indicated that the views of the noisy minority are not shared by the "silent majority" of growers. Rather than writing strident letters to editors and calling radio stations, they've signalled their desire for change through the results of the GPI - Roy Morgan Research wheat growers study released in October 2007, the better than expected pro-reform vote at the recent AWB AGM, the resounding defeat of the pro-monopoly 'reform group' within the Grain Growers Association and the defeat of the GrainCorp foundation share.

The Nationals need take note of these major indicators of a seismic shift in attitudes. Having been used by the "old AWB" PR machine as the political face of the monopoly, the change in management and corporate strategy at AWB over the last 18 months, and the demonstrable acceptance by the majority of growers of the inevitability of change, has left the Nationals with no popular support for their pro-monopoly policy.

The Nationals have been left holding the wheat monopoly "baby". This is an unfair outcome for a group of MPs who believed they were doing the right thing by their constituents. In the spirit of positive advancement of the industry, the Nationals' struggle to re-invent themselves following an embarrassing election campaign should be greeted with understanding by the grains industry.

The challenge.

Like all inflexible and coercive structures or regimes, the wheat monopoly was going to fail under the weight of its inherent inflexibility. The activities of the "old AWB", uncovered by Paul Volcker and Terrence Cole, are not the responsibility of National Party MPs. They were as shocked as the rest of the industry when the full truth of the abuses of the United Nations Oil For Food program were uncovered.

Like wheat growers in Liberal Party seats, growers in National Party seats will benefit from a more competitive wheat market. Removing the export monopoly will generate more competition for the purchase of wheat from growers and will keep the lid on the cost of marketing grain. A fairer and more transparent market will emerge. Growers will find their market power will actually increase and they will have more marketing options.

The task ahead of the Nationals is to look closely at the shift in sentiment from the silent majority of its constituents, to understand that their policy platform was captured by the political spin machine of the "old AWB" and accept that reform of that policy platform will be a positive move.

Removal of the monopoly shouldn't be seen as a defeat for the Nationals, but a clean, realistic and pragmatic cut with the past. It would be very smart politics for the Nationals to support the Government's wheat marketing reforms, and to encourage their Liberal Party colleagues to follow suit. This will aid the process of rebuilding the Nationals as a relevant force and will draw a line under a policy that has had its time.

The Header is written by David Ginns, CEO of the Grains Policy Institute P/L. www.grainpolicy.com

¹³⁰ There is a clear distinction between the current management of AWB led by Gordon Davis and the 'old AWB' of the pre Cole Commission days. Significant cultural change has taken place within AWB, to the benefit of the company and the industry at large.

The Header

Commentary and Analysis from the Grains Policy Institute

Number 11 – February 5th 2008

Ten More Wheat Market Myths Busted.

1. *With the removal of the monopoly and the national pool, banks won't lend to growers for crop establishment.*

The Australian Bankers Association¹³¹ has stated that its members are approaching this cropping season as normal; that it's 'business as usual' as far as lending money for crop establishment is concerned. Growers are assessed by their bank on the basis of the financial strength of their enterprise. Banks are not factoring in any risk premiums or restrictions on credit related to the proposed wheat export marketing reforms.

2. *No more national pool means banks won't finance grain accumulation.*

All major buyers of wheat will have credit established for accumulation of wheat during the 2008/09 harvest. Non AWB grain buyers now purchase over 75% of all wheat grown in Australia. These buyers have established relationships with lenders. The process of organising credit for grain accumulation is complex and time consuming, but is currently under way and proceeding as normal.

3. *Grain buyers won't offer pools to growers for the 2008/09 harvest.*

There will be at least 5 organisations offering a range of wheat pools for growers this year. These pools will be competitively priced and will service growers' finance and taxation needs. For the first time, pool managers will not be compelled to sell wheat not required for the domestic market into the export monopoly national pool. Managers of pools will be free to maximise returns for pool participants by finding the best domestic or international markets available.

4. *Removal of the 'buyer of last resort' will leave growers with unsold wheat.*

The value of the 'buyer of last resort' pool is dramatically overstated. The 'buyer of last resort' provision within the Wheat Marketing Act is a safety net that is rarely used, and when it is, it's not very effective and represents poor value for growers. The buyer of last resort is actually a heavily discounted pool, opened by the monopoly manager to allow it to comply with provisions in the Act. In the last 'big crop' year, less than 2% of wheat produced was sold into the discounted 'last resort' pool.

Other sectors of the grain market, barley, pulses and oilseeds, don't have a 'buyer of last resort', as a correctly functioning commodity market is better at valuing grain than an artificial intervention.

5. *Grain growers will no longer be rewarded for producing above average quality wheat.*

All major grain buyers will offer price incentives for the delivery of 'above spec' wheat. Growers who produce wheat that has low screenings, optimum protein levels and correct moisture content will be rewarded because this is what wheat consumers want. Similar price signals will be in place for the production of varieties that are in demand by domestic and international customers.

6. *Growers will have fewer selling options after the monopoly is removed.*

Over the last decade, an increasing number of buyers have been competing in the deregulated domestic wheat market. With the removal of the monopoly this trend will continue and buyers will compete more vigorously for the purchase of wheat from growers.

Competition will lead to the development of a greater range of marketing options for growers, increasing their choice. Competition will force the average cost of wheat marketing downward.

7. *The national pool is essential to coordinate storage and handling of a 'big crop'.*

The three bulk handling companies which store and handle over 80% of all wheat produced in Australia will continue to manage up-country infrastructure and port terminals in a manner that can handle a 'bumper crop'.

Where movement and storage of grain was once controlled at the direction of AWB, the removal of the export monopoly will allow the bulk handling companies to more efficiently manage their infrastructure while providing more efficient up-country and port terminal services for new exporters. The removal of the monopoly will encourage investment in new, more efficient infrastructure and in logistics management systems and processes that will bring an efficiency dividend to growers.

¹³¹ Discussions between GPI and ABA Director of Agribusiness Stephen Carroll, February 25th 2008.

8. There will be no international customers for Australian wheat.

The non AWB companies that buy over 75% of wheat from growers each year have linkages with international wheat buyers through their non-wheat (barley, oilseeds and pulses) and their containerised wheat export activities. This includes companies such as GrainCorp, the CBH Group and ABB.

The international companies operating in Australia have direct linkages to the customer bases of their parent companies. The CBH Group has direct linkages with the world's largest non-government wheat buyer, Interflour, a buyer of 4 to 5 million tonnes of wheat each year.

Potential new exporters have been regularly receiving requests from international wheat consumers who have never purchased wheat from AWB. The increased level of interest from international wheat consumers is a sign that latent demand exists for Australian wheat.

9. Removal of the national pool will mean more financial risk and grower payments will be less secure.

Participants in the AWB national pool were unsecured creditors. This meant that if the risk management strategies of AWB failed, individual growers and companies participating in the national pool faced significant losses.

Removing the monopoly and allowing new exporters to operate reduces the risks associated with the failure of a single company's trading strategy. A number of smaller export pools effectively reduces the total pricing risk that each pool manager has to handle. This means that financial risk is defrayed across a number of risk managers and risk management strategies. All the risk "eggs" are not in the one basket.

Growers should ensure that they use sales contracts recommended by the National Agricultural Commodities Marketing Association (NACMA) and deal with members of that organisation. NACMA contracts, and those endorsed by NACMA, offer clear definitions of title transfer, payment terms and a legally binding dispute arbitration process.

Under the Government's proposed changes, grower payment will be no less secure than they are under the monopoly. The monopoly confers no special security to growers. Instead, they are unsecured creditors to the monopolist.

10. Without the national pool, the wheat market will be less transparent.

The Australian Bureau of Statistics conducts a monthly audit of national grain stocks, which is published on the ABS web site.

The Pool Providers Group, operating under the aegis of NACMA, is developing a Code for the standardisation of terminology for pool and cash contract deductions, such as interest rates, management fees and statutory deductions, and clarity in the quotation of silo board prices. This will allow growers to more easily make comparisons between competing pool products, and between pools and cash prices.

The Header

Commentary and Analysis from the Grains Policy Institute

Number 12 – March 11th 2008

CBH in the market for half of West Australian crop

The CBH Group, based in Western Australia, says it will be looking to purchase well over half of the State's wheat crop, following the introduction of the new system of wheat export marketing this year. At least a third of the crop, around 2.7 million tonnes of wheat, could be destined for the Australian requirement of the Group's Interflour operations in Indonesia and joint venture partner, the Salim Group. The General Manager of Strategy and Business Development, Dr Andrew Crane, foresees a significant increase in captive demand for growers if licences for bulk exports are more freely accessible.

"As we've proven in the last couple of years we can give growers real benefit from demand from their own mills. We wish to do the same now over the full volume and we believe some of those savings are also possible with some of our other key buyers of grain", Dr Crane said. He points out that the demand for Australian wheat from Asia is historically strong. "It's important to remember that the Grain Pool, as part of CBH, has been marketing grain overseas particularly to these key South East Asian and Middle Eastern markets for 80 years, and has many established customers of other grains that also buy wheat. So it will be very easy for this organisation to expand the purchase of wheat and the supply to the international market over and above our core mill demand".

Room for expansion...

Dr Crane says the possibilities for expansion will open up under the new system. "Based on an understanding that the system is going to change, we have been considering these options on our growers' behalf for some time. The flour mills are one step in that direction. If we believe, as we do, that provides extra value for our growers, clearly we'll continue to expand that strategy of first stage grain processing in nearby expanding markets. It's really important to understand that investments in South East Asia are in areas of significant growth in demanding wheat based products, and we see that as a key driver of security of demand for our growers".

While expansion into China is a distant possibility, consolidation of the co-operative's existing investments will be a priority. "Now that we are making flour mills work in 3 different countries – Vietnam, Indonesia and Malaysia – we believe we've got more to go yet in those countries before taking additional risk by expanding into China. Our strategy would be step by step in existing markets before moving to another country".

CBH Group has been operating in South East Asia since 2004, starting with the Interflour investment. "Every year since then we have improved the performance of the mills. When we first bought the group of mills they weren't performing well but we've made year on year improvements. The business of Interflour, on the whole, is very profitable and is achieving two aims; one, covering the cost of the original investment and, two, providing a significant pull through of wheat from Western Australia".

Ready to roll...

The company has been taking steady steps to prepare for the new era in wheat export marketing. "We've always expected some change in the system. We've been anticipating that and expanding our ability to trade wheat, to buy it from growers and trade it successfully within the existing system. We believe our growers will want us to do that if the system changes. It is our belief that they'd rather have their own West Australian organisation handling their wheat rather than some alternative", Andrew says.

That anticipation has resulted in internal changes and a concentration on service to growers. "We've been making strong preparations, by expanding our wheat team, putting in place the systems needed to manage risk whilst we own the wheat and to pay growers quickly with good paperwork, and also increasing the number of products we can offer growers in the way they can market their wheat. We have over 28 permutations of products for growers in place, and also the funding in place to be able to buy the wheat from growers and hold it while we take the time to market it".

As the second largest buyer of wheat in Australia, the CBH Group's confidence in the effectiveness in the new system outlined by the Government is firm. "We believe we are in a very strong position to do this job for growers as and when the Government makes changes to the regulations. It's something we believe we are well ahead on by virtue of what we've been doing with our own mills. We believe we were the largest trader of wheat in Australia behind AWB last season and are very well placed to do this job for the majority of growers as and when the changes take place".

The Header is written by the Grains Policy Institute P/L. www.grainpolicy.com

The Header

Commentary and Analysis from the Grains Policy Institute

Number 13 – March 17th 2008

The Nationals' - Tired lines from a tired Party.

The Minister for Agriculture, The Hon. Tony Burke, delivered a Ministerial Statement¹³² to the House on March 13th. The statement was intended to clearly set out the Government's reasons for seeking to repeal the Wheat Marketing Act 1989 and replace it with the Wheat Export Marketing Act 2008.

The main outcomes from the passage of the Government's Bills will be the removal of the 69 year old wheat export monopoly and the introduction of a prudential accreditation scheme for oversight of new bulk wheat exporters, ushering in a new era of transparency for wheat industry.

The response to the Ministerial Statement by the Leader of the Nationals, The Hon. Warren Truss, was predictable, yet contained some insights into just how little the Nationals understand about the failed system they hold so close to their political hearts. His comments also revealed a lamentable failure of memory about one of the worst corporate scandals in Australian history.

Following the same stale old script...

Mr Truss opened his defence of the discredited monopoly by claiming that the Ministerial Statement *"...contained fundamental factual flaws"*. He then set about generating a flurry of his own factual flaws, while accusing the Government of *"...following some dodgy ideological cause"* as it attempts to normalise the wheat industry.

In response to observations made by the Minister that the structure of the privatised Australian Wheat Board was doomed to fail from the start, Mr Truss admitted that he did have reservations about the structure, and he admitted that AWB had failed to *"...live up to its obligations as the manager of the single desk"*. This is apparently not a good enough reason for legislative reform.

Mr Truss didn't tell the House what steps he had taken during his time as Minister responsible for the monopoly to address those reservations, mainly because he was in the business of protecting AWB.

It was Mr Truss, as Minister for Agriculture, who was responsible for watering down the 2004 Review into the Wheat Marketing Act 1989, to a point where the Review became a whitewash, certainly not the critical examination of the monopoly envisioned in the 2000 National Competition Policy review of the same Act.

Convenient amnesia...

With no apparent trace of irony, Mr Truss lauded the achievements of AWB stating, *"...it (AWB) has been successful in a whole range of activities"* and that the company *"...was recognised around the world as a very effective sales organisation"*.

After heaping praise on AWB, Truss then attacked Burke for giving an export consent to "Glencorp" (actually Glencore), stating *"...Glencorp had to pay restitution to the United Nations for corruptly abusing the oil for food program. This is a company that abused the oil for food program"*.

Mr Truss and his advisors appear to have conveniently forgotten the lessons of recent history, namely that AWB was revealed by the Volcker and Cole inquiries as the single largest rorter of the same UN Oil for Food Program. That abuse (paying bribes to Saddam Hussein) systematically occurred when Mr Truss was the Minister responsible for the Wheat Marketing Act 1989, making him responsible for the lack of oversight by the Wheat Export Authority and, by default, the activities of the monopolist.

Mr Truss was asleep at the wheel when he was the Minister and he appears determined to defend his Ministerial somnambulism by pretending that the 'Wheat for Weapons' scandal didn't happen.

Don't let the facts get in the way.

Perhaps most telling during his address to the House was Mr Truss' response to the finding by the Wheat Export Authority¹³³ that the 2004 – 05 pool had incurred a loss of \$14.076 million related to demurrage.

Mr Truss surprisingly claims *"...The single desk does not do the shipping. The single desk has nothing to do with the shipping"*. Apparently, Mr Truss is not aware of the key role ships play in exporting

¹³² All extracts and quotes in this commentary are taken from the House of Representatives Votes and Proceedings Hansard, Thursday March 13th 2008 (Proof Issue).

¹³³ WEA Growers Report 2006, pp 12.

wheat, surprising for a man who was Agriculture Minister and then Trade Minister in the last Howard Government. Mr Truss will no doubt be blissfully unaware that, between 1999-00 and 2004-05, the net loss for demurrage booked against the pool was \$77.289 million¹³⁴, or an average loss of \$12.881 million PA.

Half the story, all the time.

It would appear that the defence of the wheat monopoly by the Nationals is conducted with one eye and one ear closed. "...*The reality is that every review that was conducted into the single desk found that there were benefits to wheat growers from the operation of the single desk. ...every single review found that there were advantages to Australian wheat growers...*".

Mr Truss appears to base his statements on reports commissioned by AWB International, including;

- Econtech (2004). Single Desk Marketing of Wheat – Three Price Premium Models: Report to AWB International.
- Boston Consulting Group (2004). AWB International. Maximising Returns to Growers Supplying the Single Desk.
- Hoffman T & Matthews N (2004). Single Desk and the Grain Supply Chain – A Study of Power Relationships. Unpublished report to AWB International.
- Gans J (2000) A Submission to 2000 NCP review on behalf of AWB International.
- Gans J and Hirschberg J (2004). An Evaluation of the single Desk for Export of Australian Wheat: A Report to AWB International.
- Oxley A (2004) Single Desk Summit Presentation and Paper. AWB International.

He is apparently not aware of independent reports which criticised the single desk, including;

- Joint Industry Submission to the 2000 National Competition Policy Review. (2000) Centre for International Economics.
- National Competition Policy Review of the Wheat Marketing Act 1989 (2000) National Competition Commission.
- Review of Structural Issues in the Australian Grain Market (2002) Kronos Corporate.
- Grains Industry Review (2002) Accenture.
- What the World Wants from Australian Wheat Growers (2004) Food South Australia.
- Marketing Australian Wheat (2006) ACIL Tasman.
- Findings from Wheat Export Authority Growers Reports. 2001 – 2007.

The rest of the response by Mr Truss further revealed the National's tenuous grip on verifiable facts and was full of the usual empty rhetoric. He spent some time praising the effectiveness of the WEMA, a group that had the previous day collapsed under the weight of the egos it was trying to support.

Mr Truss trotted out the 'grower support for the single desk' mantra, without providing any substantiating evidence, and without acknowledging that growers' own commercial behaviour belies this myth. The whole '80% of growers support the single desk' line is based on a poll taken by The Land newspaper in 2003. The fact that the original poll, like subsequent polls, including those conducted by Tony Windsor MP, was carried out without a credible sampling methodology, is a point overlooked by the Nationals and other 'single desk cold warriors'.

Mr Truss' credibility was finally put to death by his own hand with the rhetorical question "...*Are the new arrangements compliant with Australia's WTO and FTA negotiations?*" As a former Trade Minister, Mr Truss would be expected to know that the export monopoly was not compliant and the new arrangements will be.

The old National Party bogey, the "...*multinational grain buyers*", was trotted out for another airing by Mr Truss in his final sentence. Monopoly adherents insist that it was put in place to protect Australian wheat growers from these apparent 'evil doers'.

The fact that growers daily sell wheat, barley, oilseeds, pulses, sheep and cattle to the same multinationals without apparent harm has escaped him.

Xenophobia and economic illiteracy have become the two defining characteristics of the National Party's policy on wheat export marketing, along with convenient lapses of memory. Their lack of support from voters was clearly evident in the last election and country people are increasingly represented by Liberal Party politicians as a result.

Given that support for the wheat monopoly is a National Party 'touchstone' issue, it's no wonder this is the case.

The Header is written by David Ginns, CEO of the Grains Policy Institute P/L. www.grainpolicy.com

¹³⁴ WEA Growers Report 2006, pp 12.

Wheat08.com

Commentary Promoting Reform of the Wheat Export Monopoly - #14 March 31st 2007

The 'Regional Monopoly' argument. No credibility – all spin.

The spectre of 'regional monopolies' was created by AWB through a report it funded in 2006¹³⁵, the argument has been reiterated in another AWB funded report¹³⁶ released in March 2008.

The rationale behind the 'regional monopoly' argument is the assumption that infrastructure owners will seek, in contravention of the Trade Practices Act and commercial commonsense, to 'exclude' parties from the use of their assets or to act in an anti-competitive manner.

AWB argue that its wheat export monopoly 'counterbalanced' the theoretical marketing power of bulk handling companies. This is simply more AWB spin.

The real agenda is to convince the Government to impose regulation on the provision of such infrastructure, and it's a flawed agenda. The argument is wrongly based on the proposition that GrainCorp, ABB Grain and the CBH Group will use their ownership of up-country storage and port terminals to monopolise regional grain markets. By inference, AWB assumes these companies would seek to extract monopoly rent.

There is no evidence, based on past or current behaviour, that bulk handling companies would act in either an anti-competitive or monopolistic manner. Regulating up-country storage and handling and ports on the 'say so' of the discredited monopolist would be inappropriate and commercially costly, both to the owners of the infrastructure and, in the long term, to those organisations wishing to use the infrastructure (including AWB).

Throughput = Revenue.

The aim of all infrastructure owners is to encourage the use of their facilities. Up-country accumulation sites, silos and ports rely on tonnage throughput to generate revenue, from which profits and a return on funds employed is derived. Simply put, the more tonnes handled, the higher the revenues.

Restricting the tonnage stored or handled is counter-intuitive. Fewer tonnes equals lower revenue. Why would an infrastructure owner seek to reduce its own revenues?

Storage and handling alternatives.

To act as an 'effective' monopolist up-country, growers and grain traders would have to have no viable storage and handling alternatives to the networks operated by bulk handling companies. Alternatives to established silos and accumulation sites exist in all grain production areas, in the form of on-farm storage (silos, bunkers and silo bags) and through alternative service providers such as AWB Grainflow and local grain traders.

These alternatives, particularly on-farm storage, pose a significant competitive threat to established infrastructure. If bulk handlers exclude companies from their networks, or price their services too high, they are at risk of encouraging the establishment of alternative, lower cost, storage options that will bypass existing infrastructure.

GrainCorp, for example, only controls 50% of the 40 million tonnes of grain storage space on the east coast of Australia. In this market, the average 'normal' crop size is 19 Mt, which is approximately half the available storage space, indicating a market with significant storage overcapacity. Given the commercial imperatives and competitive forces within the market, monopolisation of up-country storage and handling is not a logical scenario to propose.

Access guaranteed...

A similar principle applies to export grain port terminals. Each port terminal has an underlying cost to its owner; each site is 'loss making' unless or until sufficient tonnes are out-loaded to re-coup operating costs and to make a return on capital.

The owner of a port terminal would not logically restrict access or exclude tonnage, as this would diminish the earning capacity of the infrastructure. In the case of the listed companies that own ports, GrainCorp and ABB Grain, minimising tonnage throughput, and thus foregoing revenue by excluding port users, would constitute a dereliction of duty to shareholders on the part of Directors.

There is also significant port terminal overcapacity. In the case of GrainCorp, its 8 port terminals collectively operate at about 1/3 capacity. Excluding tonnage throughput would only exacerbate losses currently being made from this business.

¹³⁵ Sustaining Australia's Wheat Export Markets (2006) ITS Global for AWB.

¹³⁶ Competition in the export grain supply chain (March 2008) The Allen Consulting Group, Report to AWB Limited.

The management of all grain exporting ports in Australia is subject to a combination of regulatory controls by State governments (specific regulation related to ports) and the Commonwealth (under the Trade Practices Act).¹³⁷ This fact, along with the acceptance by the bulk handlers of the Government's access proposal in the proposed Wheat Export Marketing Bill (2008), guarantees that all companies wishing to use port terminals will be able to do so.

Cornering the market?

It is implied within the 'regional monopoly' argument that the bulk handling companies will leverage their storage and handling infrastructure to dominate the grain market. To do this, companies would have to 'purchase' sufficient market share, possibly up to 2/3 of *all grain* produced in a region, to allow them to exercise 'monopoly like' influence.

To create a monopoly, a company would have to continually offer the highest prices for *all* grain to growers. Monopolisation of a market in this manner assumes that other grain buyers would not match or exceed the prices offered by the bulk handler. It also assumes that all or most growers would sell their grain to the company seeking to monopolise the market.

None of these assumptions are rational and assume irrational behaviour in a market where rational behaviour has been evident for close to 20 years.

Financially unlikely.

To 'corner a grain market', a company would have to secure enough finance to fund 'monopoly like' grain accumulation. Without legislative backing, the bulk handling companies would have to undertake their 'purchasing' of a monopoly position each year.

None of the bulk handling companies has the financial capacity to do this. For example, GrainCorp trades approximately 16% of all grains produced on the east coast, worth approximately \$1.2 billion¹³⁸. A total 'grain' crop of 19 million tonnes on the east coast would be valued at \$7.6 billion. A 60% market share would cost GrainCorp \$4.56 billion, a figure well beyond the financial capability of the company.

If a monopoly like situation were to occur in one year, however unlikely this may be, and if the outcome was seen by the industry as negative, the market would react the following year to balance the situation. The monopolist would be punished by the market for its aberrant behaviour...

The spin continues...

The spectre of 'regional monopolies' has been created by AWB to leverage political influence in the transition between that company losing its wheat export monopoly, and competing in an open and competitive market.

AWB is trying to replace monopoly export control of the wheat sector with regulatory control of storage, handling and ports as a way of avoiding having to compete with other companies on a commercial basis.

If AWB is successful in convincing grower groups and politicians that shifting regulatory controls from the wheat export monopoly to storage and handling of *all grains* is 'good policy', that company will have continued its unhealthy political control over the grains industry. This will be a pyrrhic victory for AWB and an outcome that will ultimately cost the industry significantly in the medium and long term.

Regulation will have a very real impact on the ability of infrastructure owners to invest in infrastructure modernisation, it will increase costs and may force owners to rationalise infrastructure as a way of increasing efficiency. The result may be a future where the number of grain export terminals are reduced to 1 from 3 in Queensland, 1 from 2 in NSW, 2 from 3 in Victoria, 3 from 7 in South Australia and the existing 4 in WA. (*Amended from original version March 31st that stated 3*).

The choice is clear. Adoption of the Government's Bill with its Access Test will guarantee a fair, commercially focused outcome for everyone.

Adoption of the AWB proposal to regulate storage and ports will consign the *whole of the grain export sector* – not just wheat, but barley, sorghum, pulses and oilseeds as well – to higher costs and less flexibility.

Given AWB's reputation for manipulating policy over the last decade, can the industry and politicians risk taking the company's advice?

The Header is written by David Ginns, CEO of the Grains Policy Institute P/L. www.grainpolicy.com

¹³⁷ Refer to GPI Policy Paper # 3 -

http://www.grainpolicy.com/Policy/papers/08_Mar_17_Infrastructure_Access_Policy_Paper_3.pdf

¹³⁸ This is using an average value of \$400 / T of 'grain', including wheat, barley, sorghum, pulses and oilseeds at March 2008 price equivalents.

Wheat08.com

Commentary Promoting Reform of the Wheat Export Monopoly - #15 April 7th 2007

New Wheat Marketing system will comfort investors

One of Australia's foremost agribusiness investment analysts predicts that the introduction of the new wheat marketing system will encourage investment along the grain supply chain and beyond. Paul Jenz, agribusiness analyst with Austock Securities, says the medium term investment climate is positive.

He says the new system will provide more transparency to wheat marketing in Australia.

"Transparency usually results in investors believing they're seeing the real process and they're able to either back winners or losers", Paul says.

"The second thing, which is more interesting for the industry, is along the supply chain. Transparency and traceability through open marketing will enable not just financial investors to look at the space but also corporate investors to look at the space as well, and decide whether to put more processing into Australia or more processing into Asia which uses Australian grain".

Monopoly = low investment

According to Paul, the long standing wheat export monopoly and the complex nature of shareholding in Australia's grain companies have hindered conservative investors, especially institutions. "Any sort of barrier put up with either single desks that people don't understand that well, or ownership structures with A and B class shares, are confusing as to where the industry is going and how the company is managed. All of those are artificial barriers which don't allow an open economic and sustainable system to develop and they deter investors".

New confidence in and beyond grain...

Paul sees the benefits of the new system extending beyond grain companies.

"The more we open our markets to some reviewing and also to external checks and balances, that lifts the whole agribusiness sector because people see a globally 'benchmarkable' industry that is transparent and one they can invest in, not just in grain companies but in other agribusiness companies across Australia".

"There's a groundswell of interest in soft commodities - that is, grains and other agricultural products, and that piques the interest of investors because when they see price appreciation of commodities they like to participate in that by either buying the commodities directly or assets along the supply chain", Paul says.

"Certainly the general robustness of prices and volumes has captured the interest of investors, so now is a very good time to take the line that Australia is, by saying we're going to a more deregulated and more transparent sustainable market place. That helps investors that have peaked in interest and now with the restructuring of the industry, they get very interested and potentially will invest".

AWB - a new life in a new era

The impact of the removal of the monopoly from AWB may have a positive, rather than negative impact on AWB, as long as it can remove its dual class share structure. Paul Jenz says converting to a normal share structure will increase the investment opportunities that AWB presents to investors.

"There's a level of confusion when an ownership structure is not a typical company structure that is managed for stakeholders and for sustainability reasons", Paul says.

Paul adds that AWB has been planning for the loss of the monopoly since 2000. "I think they were planning to survive past the single desk right from listing in 2000. They obviously flagged that as one of the reasons why they bought Landmark in 2003 and since then there have been changes right across the business that the team has accelerated over the past 18 months, so I think the loss of the single desk was always envisaged".

"Perhaps it's happened a little more quickly than they thought, but I think they have been preparing for it and have changed the business model substantially. A lot of it is still in flux and we probably won't see the real new AWB until later this year (2008) or early next year".

A full transcript of the interview with Paul Jenz is available at www.grainpolicy.com

The Header is written by the Grains Policy Institute P/L.

Appendices for GPI Policy Paper # 3

Grain storage, handling and port infrastructure access. Ensuring efficient and transparent management of infrastructure..

period after the completion of the ballot, as the Minister may direct.

[Section 17 amended by No. 20 of 1989 s. 3.]

18. Title to grain in Company's care

- (1) The receipt of grain in bulk by the Company does not confer on the Company any proprietary right or interest in the grain or render the grain liable to seizure or attachment, as against the Company.
- (2) As regards grain, the position of the Company at law is that of a custodian for reward.
- (3) The proprietary interest in grain is vested in the person who, for the time being, is entitled to obtain it from bulk stocks held by the Company or under its control.

19. Company to allow use of port facilities

Subject to this Act and the regulations, the Company shall allow a person, on payment of the prescribed charges, the use of any bulk handling facilities and equipment controlled by it at ports in the State.

[Parts III and IV repealed by No. 29 of 2002 s. 8.]



Export Accumulation Guidelines

Commitment to Fair Access

CBH Operations provides Port Outloading Services for the bulk shipment of grain at its Port Terminals at Geraldton, Kwinana, Albany and Esperance. The key components of a successful Export Accumulation program are ample notice of nominations, accurate scheduling, understanding the quality specifications and working together with the customer, transport service providers and shipping related third parties.

CBH Operations is committed to providing fair access to our terminal facilities for all our customers. Considerable accumulation challenges arise daily due to the liquid nature of grain, the need to keep grain within fumigation protocols to reduce insect resistance to phosphine and the complexity of balancing the service demands of multiple owners. The more notice individual shippers can provide the higher the probability of prompt loading of their vessels upon arrival.

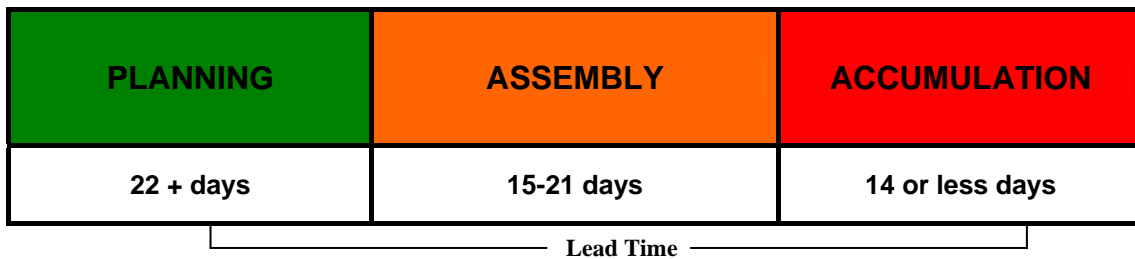
CBH also retains the right to allocate a proportion of the CBH network's transport resources for non shipping driven circumstances such as preparation for the upcoming harvest, natural disasters or to manage any stacks that may need to be moved to preserve stack quality.

Export Accumulation Queue Policy Overview

To allow for a fair and open accumulation process all vessel nominations will be subject to our "EXPORT ACCUMULATION QUEUE" Policy.

The Export Accumulation Queue is divided into three stages as detailed below.

EXPORT ACCUMULATION QUEUE



These stages reflect the processes involved in accumulating cargo for nominated vessels.

The lead time will be used to determine where in the accumulation process a nomination was made and will be determined by calculating the numbers of days between the vessels nominations date and the vessels ETA.

There will be advantages and disadvantages depending on where in the accumulation process a nomination was made.

Nominations made in the Planning stage will have priority over nominations made in the Assembly & Accumulation stages.

Nominations made in the Assembly stage will have priority set behind nominations made in the Planning stage.

Nominations made in the Accumulation stage will have priority set behind nominations made in the Assembly and Planning stages.

CBH Operations recognises actual vessel nominations with over 22 days lead time may at times not be possible so a TBN will be acceptable providing you have ownership of cargo and provide Port, lay-cans, Grades, Quality & tonnage details.

Export Accumulation Queue in Detail

PLANNING STAGE

Nominations in this stage have the highest probability their cargo will be available upon arrival due to the lead time provided

Nominations will be allocated a priority based on a vessels ETA and the amount of lead time provided. Vessels with the earliest ETA and the greatest Lead Time will be allocated the highest priority. Vessel arriving on the same day will have their priority determined by the amount of lead time provided.

For example

Three vessels are nominated as follows

<i>Vessel A –</i>	<i>ETA</i>	<i>30/08</i>	<i>Lead Time</i>	<i>30 Days</i>
<i>Vessel B –</i>	<i>ETA</i>	<i>30/08</i>	<i>Lead Time</i>	<i>28 Days</i>
<i>Vessel C –</i>	<i>ETA</i>	<i>28/08</i>	<i>Lead Time</i>	<i>23 Days</i>

The priority would be as follows

<i>Vessel A</i>	<i>2</i>
<i>Vessel B</i>	<i>3</i>
<i>Vessel C</i>	<i>1</i>

Vessel C will be allocated the highest priority as it has the earliest ETA.

Vessels A & B are both arriving on the same day, however as Vessel A provided the highest lead time it will have priority over vessel B.

Priority for each vessel will be constantly adjusted to reflect any changes to vessels ETA.

Nominations will eventually progress to the Assembly stage, determined by the difference between the current date and the ETA of each vessel.

When these nominations progress to the Assembly stage they will automatically receive priority ahead of nominations made in either the Assembly or Accumulation stages on that day.

ASSEMBLY STAGE

Vessels in this stage will comprise of three nomination types.

1. Nominations that have progressed from the Planning stage.
2. Vessels that were nominated in the Assembly stage.
3. Vessels that were nominated in the Accumulation stage.

On any given day order of priority will be allocated as follows,

1. Nominations that have progressed down from the Planning stage.
2. Nominations made within the Assembly stage.
3. Nominations made within the Accumulation stage.

For example

The following nominations are made on the same day,

Vessel A - progressed down from the Planning stage with 21 days to its ETA.

Vessel B -15 days to its ETA

Vessel C - 9 days to its ETA.

Priority for accumulation will be allocated as follows.

Vessel A - Priority 1 - First priority due to the nomination made in Planning stage.

Vessel B - Priority 2 - Second priority due to the nomination made in Assembly stage.

Vessel C - Priority 3 -Third priority due to the nomination made in Accumulation stage.

Priority changes due to updated ETA's within this stage will be at the sole discretion of CBH base on how advanced accumulation arrangements have progressed for each nomination.

It is important to note by providing the most accurate ETA's you will avoid being charged a Shipping Relocation fee in the event your vessel is delayed and your accumulation is blocking the port.

ACCUMULATION STAGE

Nominations made in this stage will go to the back of the Assembly queue. These nominations will sit behind nominations that were made in the Assembly or Planning stages.

Priority for vessels that have progressed from the Assembly stage will be locked in and will only change at the sole discretion of CBH Operations. Changes will only occur if there is no negative impact on cargo accumulations for other vessels within this window.

If a vessels accumulated cargo held at port needs to be relocated due to the vessel being cancelled or delayed then a shipping relocation fee will apply.

STOCK IN PORT.

Nominations for cargo that already resides at the terminal will be aligned to the Port Queue Policy.

Port Queue Policy

The Port queue is the berthing priority for each vessel which has arrived at a CBH port terminal and is waiting to be loaded.

Berth priority for vessel queues is determined by the actual vessel arrival time. Access to berth queues at each of our ports will only be provided once all stocks are located in port, are available for delivery to the vessel and authorisation has been received to load by the customer.

CBH recognises vessels which have received part grain cargo from a previous call (two port) at an Australian port. If this is applicable, then the actual arrival date at the first port of call is used to establish its priority in the port queue. If a vessel fails survey it retains its original priority once it has passed survey.

CBH may require customers to move their vessel from the berth if they fail survey and are holding up the berth from another vessel.



TRADE PRACTICES ACT 1974

**UNDERTAKING TO THE AUSTRALIAN COMPETITION
AND CONSUMER COMMISSION GIVEN UNDER
SECTION 87B
BY**

ABB Grain Ltd

20 September 2004

TRADE PRACTICES ACT 1974



**UNDERTAKING
TO THE AUSTRALIAN COMPETITION AND CONSUMER COMMISSION
GIVEN UNDER SECTION 87B**

BY

ABB Grain Ltd (ACN 084 962 130) (ABB)

20 September 2004

1. BACKGROUND

On 10 May 2004, ABB and AusBulk Ltd ACN 007 556 256 (**AusBulk**) entered an agreement under which they proposed to merge pursuant to a scheme of arrangement (**the Transaction**). Further details of the Transaction were announced to the ASX and despatched to shareholders on 20 August 2004.

The Transaction will combine ABB, AusBulk and United Grower Holdings Ltd 092 780 768 (**UGH**) by both AusBulk and UGH becoming wholly owned subsidiaries of ABB. The Merged Entity will (at least initially) retain the name ABB Grain Ltd and remain a listed company.

Completion of the Transaction is subject to ABB obtaining written confirmation from the Australian Competition and Consumer Commission (**the Commission**) that it does not object to the Transaction on the basis of section 50 of the Trade Practices Act 1974 (**the Act**).

The Commission has made extensive market enquiries and substantial material has been submitted to the Commission by the parties. The Commission enquiries were to assess whether or not the proposed Transaction was likely to be in contravention of section 50 of the Act.

The Commission has expressed concerns regarding the implications of the Transaction for competition between traders in grain, particularly barley traders.

While ABB and AusBulk do not agree with the concerns expressed by the Commission, they have agreed with the Commission that, in order to address the concerns raised by the Commission, ABB will give the undertakings contained in this document.

The Commission has advised that, upon implementation of this Undertaking, its concerns in respect of the Transaction will be addressed.

2. DEFINITIONS

ABB means ABB Grain Ltd ACN 084 962 130.

Act means the *Trade Practices Act 1974*.

Access means access to South Australian port terminal facilities owned or controlled by the Merged Entity and the supply of associated services by the Merged Entity for the receipt, testing, classification, storage, handling, treatment, processing or shipping of commodities at or from such facilities.

AusBulk means AusBulk Ltd ACN 007 556 256.

Barley Trader means a person entitled to trade in barley and includes a person licensed to export barley from South Australia under the *Barley Exporting Bill 2004* when it becomes law or any legislation allowing barley exports by parties other than the Merged Entity.

Business Day means a day (other than a Saturday, Sunday or public holiday) on which banks are open for banking business in South Australia.

Commission means the Australian Competition and Consumer Commission.

ESCOSA means the Essential Services Commission of South Australia.

Force Majeure means any event or cause outside the reasonable control of the Merged Entity (including any governmental restraint, direction or delay due to third parties) and which could not have been avoided or overcome by the Merged Entity by the exercise of reasonable care.

Grain Trader means a person licensed to trade in grain under relevant legislation and includes a Barley Trader.

Merged Entity means ABB following the Transaction.

Related Body Corporate has the meaning given to it by Section 4A of the Act.

Transaction means the proposed merger of ABB and AusBulk pursuant to a scheme of arrangement, as described in the agreement between ABB and AusBulk entered into on 10 May 2004.

UGH means United Grower Holdings Ltd ACN 092 780 768.

3. COMMENCEMENT AND DURATION OF UNDERTAKING

3.1 Commencement

This Undertaking comes into effect when:

- (a) the Undertaking is executed by ABB; and
- (b) the Undertaking so executed is accepted by the Commission.

3.2 Termination

This Undertaking will terminate on the date five years from the date of commencement, unless otherwise terminated in accordance with clause 5.1.

4. UNDERTAKINGS BY THE MERGED ENTITY

4.1 Access to South Australian bulk terminals for barley traders

The Merged Entity undertakes not to unfairly or unreasonably:

- (a) hinder or deny Access in relation to barley to any Barley Trader; or

- (b) discriminate between Barley Traders as to the terms and conditions (including, without limitation, priority of access and service levels) upon which Access in relation to barley is provided to Barley Traders; or
- (c) discriminate between the price charged to any Barley Trader for Access in relation to barley and the corresponding charge published on the Merged Entity's website in accordance with clause 4.3.

4.2 Access to South Australian bulk terminals for traders of grains other than barley

For each particular grain other than barley, the Merged Entity undertakes not to unfairly or unreasonably:

- (a) hinder or deny Access in relation to that grain type to any Grain Trader; or
- (b) discriminate between Grain Traders as to the terms and conditions (including, without limitation, price, priority of access and service levels) upon which Access in relation to that grain type is provided to Grain Traders.

4.3 Published prices

The Merged Entity undertakes to publish on its website its Access charges from time to time to the barley export pools managed by the Merged Entity.

4.4 Reasonable discrimination permitted

Discrimination as to terms and conditions or price is not to be taken as unfair or unreasonable for the purposes of this Undertaking if the relative terms reasonably reflect normal commercial considerations, including, without limitation:

- (a) relative costs of providing Access to different Grain Traders, having regard to grain type, grade and/or throughput; and
- (b) the reasonable cost of providing services reasonably required by or in respect of some Grain Traders, but not others, including testing of grain integrity or grain classification.

4.5 Dispute resolution

In the event of a dispute between the Merged Entity and a Grain Trader over the terms and conditions or price of Access, upon agreement with the Grain Trader, the Merged Entity will refer the matter to mediation or, if required and agreed to by the Grain Trader, to independent arbitration of the dispute, and the Merged Entity will abide by the decision of the independent arbitrator.

5. REVIEW OF UNDERTAKING

5.1 Material change in circumstances

If the Merged Entity believes that it is necessary to seek some variation due to a material change in circumstances, including, but not limited to the following:

- (a) ESCOSA varies the form of regulation applying to South Australian bulk port terminal facilities; or

- (b) another bulk port terminal facility is constructed in South Australia by a person other than the Merged Entity; or
- (c) the single desk in respect of barley export is removed, partially removed or otherwise altered,

then the Merged Entity and the Commission agree to review this Undertaking and negotiate in good faith the variation or withdrawal of all or any of the terms of the Undertaking in light of the circumstances and having regard to the need to avoid any substantial lessening of competition in grain exports from South Australia.

5.2 Circumstances that do not constitute a material change

Clause 5.1 shall not apply in respect of circumstances:

- (a) that exist at the date of this Undertaking;
- (b) that are reasonably foreseeable; or
- (c) that arise, whether directly or indirectly, by virtue of any act, matter or thing done by or on behalf of the Merged Entity or the failure of the Merged Entity to do any matter or thing.

6. FORCE MAJEURE

The Merged Entity is not liable for any failure to perform any obligation in this Undertaking if the failure to do so is due to Force Majeure.

7. OBLIGATIONS TO PROCURE AND NOTIFY

7.1 Related Bodies Corporate

Where the performance of an obligation under this Undertaking requires a Related Body Corporate of the Merged Entity to take some action or refrain from taking some action, the Merged Entity will use its best endeavours to procure that Related Body Corporate to take that action or refrain from taking that action.

7.2 Provision of information

The Merged Entity agrees to promptly provide to the Commission (subject to obligations of confidentiality to third parties) all information relevant to this Undertaking reasonably requested by the Commission. The Merged Entity will comply with such requests within ten business days.

7.3 Service of notices on Commission

Any notice or other communication to the Commission pursuant to this Undertaking must be sent to:

General Manager - Mergers & Assets Sales Branch
Australian Competition & Consumer Commission
470 Northbourne Avenue
DICKSON ACT 2602

Facsimile: (02) 6243 1199

7.4 Service of notices on ABB

Any notice or other communication from the Commission to ABB must be sent to:

Company Secretary
ABB Grain Ltd
Grain House
123-130 South Terrace
ADELAIDE SOUTH AUSTRALIA 5000

Facsimile: (08) 8231 1249

or in whatever manner ABB subsequently notify the Commission in writing.

8. ACKNOWLEDGEMENT

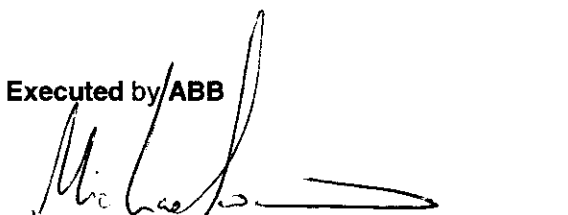
8.1 Public Inspection

ABB acknowledges that the Commission will make this Undertaking available for public inspection.

8.2 Reference to Undertaking

ABB acknowledges that the Commission will from time to time publicly refer to the Undertaking.

Executed by ABB



Signature of director

MICHAEL IWANIEW
Name of director (print)


Signature of director/company secretary
(Please delete as applicable)

PAUL COLLINS
Name of director/company secretary (print)

Accepted by the Australian Competition and Consumer Commission pursuant to section 87B of the *Trade Practices Act 1974*


Graeme Julian Samuel
Chairman

20 September 2004
Date

**Undertaking to the Essential Services Commission ('Commission')
given under the Section 19 of the Grain Handling And Storage Act 1995
as amended by the Grain Handling and Storage Amendment Act 2007
(‘the Act’)
by
GrainCorp Operations Limited (ABN 52 003 875 401) ('GOC')**

Background

On September 25, 2007 the Grain Handling and Storage Amendment Act 2007 was introduced by the Victorian Government. This amendment facilitates the introduction of undertakings based on general access determinations from Bulk Grain Terminals. These undertakings are to be implemented by means of an application to the Commission for a general access determination.

In essence, Bulk Grain Terminals have been determined to be significant infrastructure facilities and, as such, access to them and use of their services must be available to all grain marketers on fair and reasonable commercial terms. These undertakings are to:

- Be for a period of two years, commencing 31 January 2008
- Commit to non-discriminatory access to all parties
- Commit to publish terminal access prices
- Commit to a binding dispute resolution process

Term

This Undertaking comes into effect when:

- Executed by GOC,
- Accepted and executed by the Commission,
- On 31 January 2008 or such later date as the Commission makes its determination in favour of the Undertaking

It expires on 31 December 2010, or on the date of repeal of relevant sections of the Act, whichever is the earlier. The term of this Undertaking does not limit the term of any contract entered into by GOC during the currency of this Undertaking. That is, a contract with a longer term continues on after this Undertaking ceases.

Undertakings by GOC

Commitment to publish prices and terms and conditions

GOC's current standard charges for access to services provided by its Geelong and Portland Port Terminals are attached to this Undertaking in Schedule 1. GOC undertakes to:

- Publish updated standard charges for access to services provided by its Geelong and Portland Port Terminals by no later than 30 September of each year to apply throughout the proceeding 12 month period commencing on 1 October of the same year and ending on 30 September of the following year.
- Publish updated standard terms and conditions for services provided by its Geelong and Portland Port Terminals by no later than 30 September of each year

for the proceeding 12 month period ending on 30 September of the following year.

- Not to unfairly or unreasonably discriminate between grain marketers as to the terms and conditions upon which access is provided.

Commitment to non-discriminatory access

GOC undertakes not to unfairly or unreasonably discriminate between grain marketers as to the charges and/or terms and conditions for services provided. Without limitation, there will be no discrimination between access users and seekers where the nature and characteristics of the services are the same. The nature and characteristics of a service can be different for:

- different commodities;
- different volumes of commodities;
- different periods of time during which access is required;
- different levels of demand; and
- different modes of receipt.

Without limitation, discrimination as to terms and conditions or price is not to be taken as unfair or unreasonable for the purposes of this Undertaking if the relative terms reasonably reflect normal commercial considerations including:

- Relative costs of providing access and services having regard to commodity type, grade and quantity;
- The reasonable cost of providing quality related services reasonably required by GOC in respect of some commodity marketers, but not others, including testing of grain integrity or grain classification;
- The need for GOC to handle and store commodities efficiently on behalf of multiple commodity marketers;
- Protecting GOC against liability for events reasonably beyond the control of GOC, including but without limitation industrial strikes, boycotts or blockades;
- Relative risk related to storing and handling commodities for commodity marketers.

Commitment to a binding dispute resolution process

In the event of a dispute between GOC and a commodity marketer over the terms and conditions or the price of access pursuant to this Undertaking the following dispute resolution process will apply and be followed by GOC.

1. The parties are obliged to negotiate in good faith and will endeavour to resolve any dispute concerning access to GOC's Geelong and Portland Port Terminals between themselves, including where necessary escalating the dispute for negotiation between both parties' Chief Executives.

2. If the parties cannot resolve the dispute themselves within 30 days of one party giving notice of the dispute (with particulars sufficiently to identify the issue or issues in dispute) to the other they will immediately:
 - i. appoint within the following 15 day period an arbitrator to determine the dispute; or
 - ii. if the parties are unable to agree upon an arbitrator, either party may refer the dispute for arbitration by an arbitrator nominated by the then President of the Law Society of Victoria.
3. Any arbitration will be conducted in Melbourne in accordance with the *Commercial Arbitration Act 1984 (VIC)* except that:
 - i. the arbitrator must observe the rules of natural justice but is not required to observe the rules of evidence;
 - ii. a party may have legal representation; and
 - iii. the arbitrator must apportion costs of the arbitration and each party's costs of and incidental to the arbitration as the arbitrator sees fit.
 - iv. the dispute resolution process shall be completed as soon as practicable, and if possible within no longer than 20 business days.
4. During any dispute resolution process, a *non-dispute status quo* will continue. Accordingly:
 - i. each party will comply with its obligations and may exercise its rights under its Agreement; and
 - ii. the fact that a party ceases to do anything in dispute will not be taken to be an admission by that party that it had breached, or had been in breach of its Agreement.

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Obligations to Procure

Where the performance of an obligation under this Undertaking requires a Related Body Corporate of GOC to take some action or refrain from taking some action, GOC will use its best endeavours to procure that Related Body Corporate to take that action or refrain from taking that action.

Schedule 1: 2007/08 Port Storage and Handling Charges and Conditions

Full details of GOC's storage and handling fees and conditions for export grain at Geelong and Portland Port Terminals are published on GrainCorp website: www.graincorp.com.au

Charges: http://www.graincorp.com.au/bins/content_page.asp?cid=2-45-49

Conditions: http://www.graincorp.com.au/bins/content_page.asp?cid=2-45-48

The applicable GOC storage and handling charges and conditions for export grain are attached.

~~acknowledges that the Stock Information may be subject to further update upon the availability of additional Stock Information that may effect the Accounting Stock Tonnage of the Client. GrainCorp is not liable to the Client or any other person for any Claim or Loss arising out of or in connection with the supply of Stock Information. The Client expressly indemnifies GrainCorp and its employees, agents and contractors for any Loss suffered or incurred by them in connection with all such Claims.~~

~~4.18. If any documents issued to the Client contain incorrect information as to the quantity or other particulars of Grain, then GrainCorp must promptly notify the Client by sending a new or amended version of the document.~~

~~4.19. If an error is not ascertained until after the complete outturn of the Client's grain, and it results in the Client receiving Grain in excess of the Accounting Stock Tonnage, then the Client must either:~~

- ~~(a) pay to GrainCorp an amount equal to the market value of the excess quantity of Grain at the date of outturn, within 21 days of invoice; or~~
- ~~(b) replace the Grain with grain of the same type and quality and in the quantity exactly equal to the surplus volume provided in excess to the Client's Accounting Stock Tonnage.~~

5. PORT TERMINAL OPERATION

Labour

5.1. GrainCorp is only required to provide a single day shift operation at Port Terminals on any one normal business day (which excludes weekends and gazetted public holidays). GrainCorp and the Client may agree that additional (overtime) shifts will be provided for the Client's Grain. This applies to both shipping services and the unloading of road and rail transport.

Overtime Charges

5.2. If GrainCorp provides overtime shifts the Client must pay:

- (a) the overtime fees as set out in **Schedule 1: Port Services Fees**; and
- (b) any stevedoring charges or charges required to be paid to the Department of Agriculture Fisheries and Forestry (AQIS) and other charges incurred or required to be paid by GrainCorp in connection with providing the additional overtime shifts.

5.3. Where overtime labour has been engaged by GrainCorp to load a ship or unload road and rail transport in accordance with the Client's request and the vessel is unable to load for any reason, or the transport fails to arrive at the Port Terminal, the overtime charges must still be paid by the Client.

- 5.4. Notification of a request to load a vessel requiring overtime or weekend shifts must be provided to GrainCorp prior to cut off times as specified from time to time by the Port Terminal. GrainCorp is entitled to refuse any such requests.

Shipping Information

- 5.5. GrainCorp will from time to time make available to Clients the forward monthly program of nominated vessels to be loaded at GrainCorp Port Terminals.
- 5.6. The Client must provide GrainCorp with details of the Client's forward shipping program as soon as is reasonably possible.

Nominating Vessels

- 5.7. If the Client requires GrainCorp to load Grain onto a ship at a Port Terminal, the Client must nominate the vessel which is to be loaded and must give GrainCorp notice of the expected arrival of the nominated vessel.. The vessel nomination must include:
- (a) the name of the vessel;
 - (b) current location of vessel or captain details or ship's agent contact details;
 - (c) the expected date and time of arrival and whether the vessel is expected to be ready to load on arrival;
 - (d) identification of the loading port or ports;
 - (e) the Cargo Assembly Plan (CAP) that includes the approximate tonnage and grades (including blending and other grain services required) to be loaded by the Client at each loading port;
 - (f) destination of vessel;
 - (g) any special or unusual features of the vessel relevant to outloading;
 - (h) details of the holders of all encumbrances over the commodities and the proposed release.
- 5.8. The Client's nomination of a vessel will be accepted at GrainCorp's discretion and assigned a Load Date and Queuing Order based on the notice period provided by the Client. GrainCorp, in determining the Load Date and vessel Queuing Order, will also take into account the availability of rail or road transport, assessment of required vessel accumulation time, available port capacity, the Client's current Accounting Stock Tonnage and the requirements of other nominated vessels. GrainCorp can reject vessels that have given insufficient accumulation time for rail or road assembly of Grain into the Port Terminal.
- 5.9. No later than 21 days before the assigned Load Date, the Client and GrainCorp will develop a Site Assembly Plan (SAP) for the accumulation of the Grain at the Port Terminal.

- 5.10. The Client must be able to provide proof to GrainCorp of Grain location and title within the relevant port zone, including grain stored on facilities not owned or operated by GrainCorp, and proof of transport capacity to accumulate the Grain at the nominated Port Terminal no later than 21 days before the assigned Load Date.
- 5.11. GrainCorp is under no obligation to receive grain at any of its' Port Terminals against a nominated vessel with an assigned Load Date in advance of 21 days before the assigned Load Date. GrainCorp does not warrant and is not liable to the Client for any costs if the Grain is not accumulated at the Port Terminal in the 21 days before the assigned Load Date.
- 5.12. The Client may nominate a vessel with an estimated time of arrival of less than 21 days provided the other conditions of **Clauses 5.7 to 5.11** are met however the Client acknowledges that this short notification will effect the assignment of Queuing Order and Load Date.

Booking Fee

- 5.13. The Client must pay a refundable booking fee as detailed in **Schedule 1: Port Services Fees** to GrainCorp within 24 hours to confirm a vessel nomination and be assigned a Load Date and Queuing Order. This fee is in addition to the Shiploading Fee as listed in **Schedule 1: Port Services Fees** and will be refunded to the Client by GrainCorp in the circumstances where the Client's nominated vessel arrives no later than five (5) days after the assigned Load Date.
- 5.14. If the Client nominates a vessel and pays the booking fee and then subsequently fails to comply with the requirements of **Clauses 5.7 to 5.11**, the assigned Load Date and Queuing order will be cancelled by GrainCorp, the booking fee forfeit and the Client required to re-nominate, including payment of a new booking fee , the same or substitute vessel to be assigned another Load Date and Queuing Order.
- 5.15. Each vessel nominated by the Client will be allowed to substitute a vessel without being required to re-nominate and pay a new booking fee provided that the substituted vessels estimated time of arrival (ETA) is within 5 days of the original ETA and the nominated Grain does not vary from the original CAP. The Client acknowledges that GrainCorp may alter the assigned Load Date and Queuing Order when a substitute vessel is advised by the Client. If the Client provides more than 21 days notice of a vessel substitution, the ETA and CAP may vary from the limits prescribed in this **Clause 5.15** without penalty to the Client except for the assignment of new Load Date and Queuing Order allocations.

Late or Cancelled Vessels

- 5.16. If a vessel's Notice of Readiness is later than the 5 days after the assigned Load Date
- (1) the buyer will be required to renominate to secure a new Load Date as per **Clauses 5.7 to 5.11**; and
 - (2) the booking fee is forfeit; and

- (3) all Grain in the Terminal accumulated for that vessel will accrue storage charges (in addition to the standard storage charges) at the rate of \$0.50 per day from the sixth day after the assigned Load Date until such time as the Grain is either loaded to a vessel or removed from the Port Terminal. Any additional fees accrued are payable prior to vessel loading commencing.

Loading Vessels

5.17. GrainCorp will load vessels upon receipt from the Client of the Client's Notice of Readiness and in accordance with **Clause 5.8**. GrainCorp may amend the loading order where a vessel has berthed but fails any initial preloading inspection or survey and another vessel allocated the next position in the Queuing Order has tendered its notice of readiness to load. The Client acknowledges that GrainCorp has the right to demand that the vessel be relocated to another berth if it cannot demonstrate that it will pass any subsequent survey within 24 hours of the initial failure.

GrainCorp is not liable for any Loss incurred by the Client or any other person as a direct or indirect result of the timing of berth access to Port Terminals.

5.18. Prior to the commencement of loading, all Accounting Stock Tonnages for the Grain to be loaded aboard the vessel must be in the Client's name in the GrainCorp Stock Management System.

5.19. If, in loading a vessel for the Client, the Client's total Accounting Stock Tonnage loaded on the vessel is greater than the Client's total Accounting Stock in the GrainCorp Stock System immediately prior to the loading of the vessel, **Clause 4.7** will apply.

5.20. The Client acknowledges that AQIS may disallow the loading of some portion of the Client's Grain at the Port Terminal for reasons of insect infestation or other quarantine issue. GrainCorp is not liable for any Loss incurred by the Client in relation to the failure to load that portion of the Grain or the replacement of that stock for the completion of loading.

5.21. GrainCorp is not liable for any quality issues derived from Grain rejected from shipping at a Port Terminal that has been delivered from an Approved Bulk Handling Company. The Client remains the owner of this Grain at all times until the Grain is sold or removed from the Port Terminal. Fees applicable under **Clause 5.30** will apply to this Grain.

5.22. Grain received at a Port Terminal from an Approved Bulk Handling Company that is found to be infested will be fumigated or treated at the Port Terminal at the Client's expense. Applicable fees for this service are detailed in **Schedule 1: Port Services Fees**.

5.23. GrainCorp will load Grain from the Port Terminal storage in accordance with:

- (a) the standard, notwithstanding **Clauses 6.1 to 6.9**, advised to GrainCorp by the Client (provided that these are no more rigid than the Approved Reveal Specifications and the Sampling Methodology for the receipt of the Grain); and

- (b) the "Specification to Load Advice" form provided to GrainCorp by the Client and endorsed by GrainCorp; and
- (c) any other market or blending requirements as agreed in writing by the parties.

5.24. The Client acknowledges that GrainCorp has the right to mitigate dust emissions at Port Terminals. Such mitigation may include moisture conditioning of grain paths.

Insufficient Grain Accumulated to Load Vessel

5.25. If the Client has not accumulated sufficient Grain at the Port Terminal for the vessel at the Load Date and the vessel has berthed and passed all required surveys, GrainCorp will commence to load the vessel with the available Grain and in such a manner as to ensure the stability of the vessel to enable it to sail. GrainCorp may order the vessel off the berth at the Client's expense if the vessel next in the Queuing Order at that Port Terminal is ready to berth and has sufficient cargo to commence loading. The relocated vessel will be allowed back on the berth when the balance of Grain has been accumulated at the Port Terminal.

5.26. GrainCorp is not liable for and does not guarantee cargo availability at the Port Terminal by the Load Date regardless of the period of notification provided by the Client.

Port Charges

5.27. GrainCorp is not liable for any port charges in relation to receipt, storage and loading of Grain at Port Terminals (including ship, demurrage, stevedoring, Port fees or AQIS fees or charges of any kind), and such port charges will be borne by the Client. In addition, any charges that GrainCorp may incur under the new Maritime Transport Security Act (2003) may be passed onto the vessel agent or Client after consultation.

5.28. The Client will be responsible for paying all costs associated with conducting the export inspection of Grain by AQIS and/or its agent(s) as well as the cost of employing shipboard labour connected with loading, storing, treating and transporting the Grain for any such inspection.

5.29. For vessels at Geelong, upon completion of loading the vessel must sail within two hours of completing cargo operations (at the Geelong Number Three berth). If the vessel does not sail the following hourly charges will apply after the expiration of the two hours:

\$300.00 per hour for the first hour or part thereof

\$600.00 per hour for each subsequent hour or part thereof

This fee will be levied to the shipper's agent. If the shipper's agent defaults on this, or any other charge applied by GrainCorp in loading a vessel on behalf of the Client at the Geelong Terminal, GrainCorp may seek payment in full from the Client for any amount outstanding and charged to the agent for the loading of that vessel.

Residual Grain in the Port Terminal

5.30. Any residual grain remaining in the Port Terminal after the completion of loading or as the result of a vessel cancellation will accrue an occupancy charge of \$3,000 per storage bin per week in addition to the normal storage fees detailed in **Schedule 1: Port Services Fees**. The Client acknowledges that GrainCorp may reposition or relocate the Grain into outside storage or other off-wharf storage at the Client's cost, including storage, freight and weighing.

5.31. Clause 5.30 will not apply if:

- (a) the residual stock remains in the Port Terminal as a result of a rejection to load to vessel by AQIS and the Grain was moved to the Port Terminal from a GrainCorp Country Site; or
- (b) the Client has a following vessel nomination for the same Grain commencing within 14 days of the previous vessel's completion of loading; or
- (c) the Client agrees that the Grain can be placed on a following vessel of another GrainCorp customer commencing accumulation within 14 days of the previous vessel's completion of loading.

Residual Grain

5.32. If the Grain arriving at the Port Terminal from a GrainCorp Country Site cannot be loaded onto the nominated vessel due to quality reasons through no fault of the Client (excluding insects and Client's specifications that are outside of the receival standards) GrainCorp will:

- (a) replace that grain with grain of the right quality and at GrainCorp's cost;
- (b) deem the Client's Grain Accounting Stock Tonnes for that component of stock outside of the CAP quality requirements to have remained at the originating GrainCorp Country Site; and
- (c) stock swap the rejected grain at the Port Terminal with GrainCorp who will assume ownership at the Port Terminal.

5.33. GrainCorp will not be liable for any Grain that does not meet the CAP requirement that has been sent to a Port Terminal from an Approved Bulk Handling Company. The Client remains the owner of this Grain until the total mass of it is outloaded or sold, and until this time, the Grain will be subject to any applicable storage and residual grain charges.

Zone Transfer Fee

5.34. If:

- (a) any Grain stored in the Mackay zone is outturned for export through Gladstone;
or

- (b) any Grain stored in the Gladstone zone is outturned for export through Mackay;
or
- (c) any Grain stored in any area or zone other than those specified in **clause 5.34(a)** and **(b)** above is transferred to Mackay for export through Mackay,

then the Client will pay GrainCorp a zone transfer fee as specified in the attached pricing **Schedule 1: Port Services Fees**. GrainCorp may, at its discretion, waive all or part of the fee.

In this clause, zone means such place or area, the name or boundaries of which and the Sites contained within which are determined by GrainCorp from time to time.

6. DAMAGES

~~6.1. Unless agreed in writing with the Client, GrainCorp will not be liable to the Client for any Claims in relation to reduction in standard or quality of Grain where:~~

- ~~(a) the reduction in quality or standard of Grain has not resulted in the downgrading of the Grain from the grade to which the Grain was classified on receipt by GrainCorp; and/or~~
- ~~(b) GrainCorp has received and loaded the Grain in accordance with the Approved Receival Specifications and Sampling Methodology or other minimum receival specifications and sampling methodology agreed in writing between GrainCorp and the Client under this Agreement; and/or~~
- ~~(c) the Client has requested GrainCorp to blend two or more grades of Grain into one grade of grain and the new grade is at least the same quality of the lower Grade; and/or~~
- ~~(d) the moisture content of the representative sample for all grades loaded to road, rail, belt or export is within 0.3% of the maximum allowable under the Approved Receival Specifications and Sampling Methodology; and/or~~
- ~~(e) the Client has not provided notification of the road outloading destination.~~

~~6.2. If the Approved Receival Specifications and Sampling Methodology or the minimum receival specifications and sampling methodology as the case may be referred to in **Clause 6.1** are not met, any Claims made by the Client against GrainCorp in respect of downgraded Grain will be limited to: $T \times (P - V)$ where: T is the quantity in tonnes of Grain downgraded from one grade to a lower grade; and P is the fair market value of the non downgraded grain on the date at which the Claim was made by the client; and V is the fair market value of the downgraded Grain on the date at which the Claim was made by the Client.~~

~~6.3. If a Claim is recognised by GrainCorp to be valid and GrainCorp agrees to compensate the Client for associated freight costs the following terms will apply – GrainCorp will pay to the Client the actual associated freight cost up to a maximum of \$1.30 per kilometre travelled.~~