

## **Submission to the Senate enquiry into Wheat Marketing.**

6th April 2008

From Darryl Kitto, Grain Grower from West Wyalong in central NSW.  
I am currently serving as a member of NSW Farmers, Grain Growers Association and Wheat Growers Association.  
I have had a lot of involvement with the Wheat Marketing issue.

I am the third generation to farm our property, currently 2200 hectares, and I annually plant 500 hectares of wheat along with 300 Hectares of other grain crops in rotation. Most of the wheat has been delivered to the AWB National Pool, as the cash price on offer dramatically falls the further the harvest moves south from Queensland. The National Pool has provided us with advance payments, Golden Rewards, rail freight discounts as well as other financially beneficial benefits too numerous to mention here. I have sold for cash domestically in very low production years.

I am bitterly disappointed in the "decision" of the Government to deregulate Australian bulk wheat exports. This move disadvantages Australian Wheat Growers in a number of ways. This is a multi billion dollar industry that the Government intends to dramatically change without a Business Plan or any modeling done on the effect it will have on growers returns. It is an indictment on the Government to rush such a proposal through in such a short time without any detailed consultation with those mostly affected. The Government intends to implement dramatic changes within 6 months to our Wheat Marketing system which has served us well for over 60 years. Growers support for a Single Desk Single seller system for the sale of their wheat has not diminished from that of the past.

Mr Rudd stated clearly whilst he was in opposition that growers should be allowed to have a vote on the future of their wheat marketing system before any changes are made. The attached letter from the Prime Minister to me last year clearly explains that even Mr Rudd supports the Single Desk single seller system and described its benefits to growers and who he blamed for the problems with the Food for oil debacle.

Multinational Grain Companies have much to gain in the dismantling of the Single Desk. Profits from "trading" (in Australian wheat) will end up outside Australia, in their pockets. They have only one thing as an objective - profits for themselves, no concern for the Australian Wheat Grower and the rural economy.

The new Minister for Agriculture the Honourable Tony Bourke has quite rightly publicly admitted he has very little experience in his new portfolio and is prepared to listen and learn. I would hope he will consider growers' interests ahead of the "lollies" multinational grain companies are leaving on his desk. I was dismayed

to see the new Agriculture Minister Tony Burke's Wheat Industry "Expert" group is dominated by those with a track record of undermining growers' interests. The so called expert panel contains only one true industry representative with a strong grower ethos, Gail Dowie.

Dan Mangelsdorf , Grain Corp Deputy Chair, has only been farming for a little over 10 years since leaving a bank and for the last three years he has been Deputy Chairman and then Chairman of the industry's most tumultuous association. This is due to the fact he refuses to listen to the members, "THE GROWERS" and has actively lobbied Canberra to destroy the Single Desk. Grain Growers Association submissions to Government have been prepared without consultation with members and against members wishes i.e. GGA have stated in their submission to this Senate Committee enquiry that they have held a series of members meetings which - this certainly **has not happened**.

Geoff Nalder from VFF, with it's reliance on investment income from Grain Corp, is a Chairman of a Committee that many of its members feel neglects to represent policy of its membership. The rest of the States involved have stuck it out for the long haul trying their hardest to respect their members best interests.

Mr Bourke's panel is a sad indictment on Labor's refusal to act on behalf of those with the most to lose, the Australian Wheat Grower. Mr Bourke would do well to listen to what growers have stated time and time again, that the vast majority of wheat growers want nothing less than a Single Desk marketing system controlled by the growers. This system broadens production base and removes the risk attached to forward selling on an individual basis. Obviously the "expert group" is stacked with the "right" people to get the desired outcome - certainly not growers' interests.

Where is the growers' voice to Government?

The farmers peak industry body the Grains Council of Australia was infected by the deregulators against the Policies of the member state farm organisation policies leading to its demise as a National representative body.

The majority grower voice is only truly being expressed through NSW Farmers Association, WA Farmers Association and the Wheat Growers Association member implemented Policies.

### **KEY POINTS CONCERN FOR LABORS NEW EXPORT WHEAT PLAN.**

The Australian Wheat Industry is experiencing the worst drought in history with no guaranteed end in sight. After 7 years or more of drought and 2 crop failures in some areas the Australian Wheat Industry is not in a position to take any more loses in cost or markets due to new Federal Government structural changes. The industry also has to compete in selling its product on a massively corrupted world

market rife with foreign subsidies to their growers. Australian growers do not have this Government funded safety net.

The average farm debt increased by years of drought is at an all time high. The majority of growers and their families are under enormous mental and physical stress. Depression and suicide rates are at an all time high I understand.

Before the Government imposes their rushed Policy onto an unprepared Industry there are some serious concerns and issues that should be taken into account. If they cannot be addressed then the Legislation "MUST" be delayed until such time as they are investigated and reported.

A Government which declares it represents all Australians must not risk imposing Policy on its people that will leave the majority worse off whilst making Big business shareholders both foreign and domestic wealthier.

Below are a number of points that I have put together with the help of a number of concerned wheat growers I have contacted from across Australia. These concerns need to be addressed thoroughly so as not to cost Wheat growers an enormous amount of money.

- 1 Loss of the National Wheat Pool.  
The National Pool in the past has given growers a level of protection in maximizing their returns and the ability to have their grain hedged over a National crop. The AWB had the ability and the expertise to Hedge the crop and arrange shipping logistic when required. Although there have been examples of AWB not being able to Hedge effectively on occasion due to unusual events it is evident that growers acting alone hedging their crop face disastrous losses as happened last year when things went bad.
- 2 The new Pools look as though they will only be Regional Pools with a lower first payment advance and a lower Expected Pool return (EPR) because of lack of knowing how much Wheat the pool will attract. The net effect is growers will be forced to take Cash prices at harvest possibly causing a net loss. Payments look as though they will be on fair average quality standards also reducing returns to growers as well as dramatically affecting the quality standards of Australian wheat. The incentive to produce top quality wheat is being removed.
- 3 In recent days there have been concerns raised in the media from industry representatives on the ability of the wheat exporters to borrow money at reasonable interest rates to finance Cash and Pool payments to growers. Due to the fall out of the US Subprime lending disaster. The AWB had a very high financial Rating and due to the National Pool it could borrow at competitive rates and competition with other Banks to finance growers was allowed. Under the New AWB Pool arrangement I believe growers using the AWB regional Pool option also have to use only AWBs financing facility if growers want cash advances. Also as the AWB has no idea of the tonnage they will secure the Estimated Pool return will

be lower than that of a National Pool.

There is also a question around how much the first advance to growers will be. Under the National pool it was 80-90%. I have heard due to uncertainty AWB could only be paying 60% of a low EPR. This will be a dramatic loss to growers if this eventuates.

Other exporters would also have the same difficulty including Graincorp who have had funding problems for a number of years and have been forced to issue special share deals in recent times to inject capital into their business.

- 4 Immediate loss of National Pool negotiating power on supply chain costs. I.e. freight discount from country storage to port is lost under new proposal. \$5-\$10 estimated cost to grower.
- 5 Freight rail operators will face an overwhelming task servicing multiple customer requests for grain freight. Logistical nightmare. Cost to grower.
- 6 Over history cash prices for grain drops as the harvest progresses south. The National Pool gave a safety net to growers to have somewhere to deliver their grain as well as offering an EPR (Expected Pool return.) Without the National Pool the weakest seller will set the cash price offered by traders. The other domestic pool operators used the National pool to dump unwanted wheat into. The new policy will not give them that option. The accredited traders will be forced to sell surplus wheat on the open world market for whatever they can get for it. In large production years this price would be massively reduced.
- 7 Loss of the Golden rewards payment scheme which rewarded growers to supply wheat quality of a high standard. Industry sent back to cliff face pricing? Reducing grower income.
- 8 Access to Ports by multiple sellers.  
The Access to Port agreement is only a piece of paper. How can the Government force the owner of an export port terminal and an exporter as well to give equal access to their direct competition? It would not be in their or their shareholders best interest to do so. They have act in the best interest of their shareholders.  
Complaints and conflict over access to Ports will be a long process possibly through a Court system where proof has to be established that an exporter was not given adequate access to the export Port facilities to allow Accumulation and delivery to their ships. In the mean time grower's wheat can be held up from delivery and sale if they have pooled their Wheat with the Exporter in conflict. Mean while the demurrage cost are exculating during any delay. The net effect is the accredited exporter may be forced out of business by the lack of access therefore the loss of contracts due to the inability to deliver in a specified time.

Demurrage/ vessel nomination cost at Port increase due to capacity constraints /multiple exporters wanting to export at the same time. Logistics of ordering, accumulating the shipment and loading ships was challenging under the Single seller system under a multiple seller system will be an expensive nightmare. Cost passed onto growers. The new legislation does not extend to up country storages where multiple exporters may hold their wheat in monopoly owned storages and require access to turn out of their wheat to met export requirements. Any delay to a trucking out program would have similar results as at Port.

- 9 Normal average harvest National Pool sold and moved strategically over around 12/ 18 month period. Under new system it will be sold and shipped ASAP. Increased pressure on port monopolies as the system is not designed to cope with large short time movement of grain. Remember other grains that bulk handlers largely control are trying to be shipped out at the same time as wheat. With the State Governments failure of the Freight rail system most grain will have to be moved by road which will be impossible task, forcing increased storage and carry over cost at grower's expense. Cost to growers.
- 10 Growers will have an additional cost of storage of unsold grain either in own storage or that of the monopoly handler/trader. For an undetermined amount of time increasing grower losses.
- 11 Back to back good harvests will see large amounts of unsold wheat in storage around Australia which will allow buyers to cherry pick what they want at their price. Growers are price takers and the weakest seller will set the price. Growers suffering from the enormous financial burden from 7 years of drought and 2 crop failures paying upwards of 9-10% INTEREST at the Bank will need to sell at harvest to keep the Bank happy or face enormous additional cost.
- 12 The requirement for thorough investigative powers to the ACCC to investigate and prosecute those found guilty of collusion of buyers and traders with extremely severe penalties for those convicted has not been addressed in the proposed legislation. Collusion allegedly occurs regularly in the meat and feed grain industry unchecked. It will just be on a larger scale with wheat. I believe the ACCC does not have the ability to conduct thorough investigations into this problem at this stage.
- 13 No financial security for growers at point of sale or after. How can the grower keep ownership of the grain until payment is made? Will the Government guarantee payment to the grower for unpaid wheat if the accredited buyer falls over?
- 14 No receiver of last resort. This is necessary in large production years or

back to back good harvests and in years where quality is outside the normal receival standard.

- 15 In years of the single desk single seller National Pool AWB has been able to blend grains to bring them up to a higher quality and a better price for growers. This cannot be done efficiently on a national scale without the National Pool. The National pool was able to source and blend wheat Australia wide to satisfy our valuable customer's requirements.
- 16 No obligation to manage supply or post price when necessary, for the growers benefit. An example of this happened during the 2007 barley harvest in SA where buyers failed to post a price until harvest was well underway.
- 17 No quality control system delivering "Golden Rewards and quality assurance" for overseas markets. Who handles and pays for delays of shipments delayed by customer complaint on quality? I.e. iron filings/ carnal bunt/ ergot.
- 18 No classification system growers can trust and rely on.
- 19 No mechanism for stopping Australian wheat competing against Australian wheat, to grower's detriment. Particularly with Single desk buyers.
- 20 Additional cost to growers to operate Wheat exports Australia. Currently the Australian Tax payer is funding the EWC due to a shortfall in funding. The CEO of EWC Peter Woods told us that the level of services as a watch dog delivered to the industry by the new WEA will depend directly on funding. It will not be an export wheat Police force. If growers are to have the level of protection required to oversee this new system I cannot see it being delivered by WEA without additional funding from the wheat grower as the Tax payer should not be forced to pay for this. Any additional cost to growers from this new legislation would be counterproductive as the system we had in place had a known cost to growers. Even Mr. Rudd laid the blame for the food for oil problem onto the WEA due to it not having the power to have found out what was happening. Why will the new WEA be any different? I refer you to the attached letter to a wheat grower from Mr Rudd.
- 21 No farmer co-operatives allowed to sell wheat overseas under the new proposal.
- 22 No reason for any company to sell Australian wheat if a greater profit can be attained selling grain from another source (company code, we must put our shareholders first). Even a single desk free AWB could blend Australian wheat with inferior foreign wheat put an Australian brand name

- on it and pass it off as Australian wheat. This would seriously jeopardise our best markets hard one over a lot of years. There is no obligation for AWB to trade Australian wheat at all under this new system. They could take all the resources put in place for and by Australian wheat growers including the customer book and trade all foreign wheat to maximize returns to their shareholders. The Geneva office has been trading foreign wheat into our markets now because of the lack of Australian wheat and to keep those markets in AWBs hands until we go back to normal average production. Under the new legislation the AWB could become a competitor.
- 23 Extreme market volatility. Domestic feed grain users including Dairy, Poultry, Piggeries, Feed lots and others will be affected as the National Pool for wheat gave them price stabilization for their feed grain purchases. Feed grain prices reflected the Wheat EPR. Remember without strong domestic grain production foreign grain will have to be imported to service an ever growing domestic market. Grain growers Australia wide need price stability offered by a National Wheat Pool.
  - 24 Eastern Australian grain Ports owned by a monopoly Australian operator. Ownership could fall into the hands of foreign interest very shortly with recent changes to Graincorp. What Government system is in place to stop this?
  - 25 No market stability to plan loans repayments, machinery upgrades, with banks uneasy over the proposed marketing arrangements and farm budget reliability, because of this uncertainty.
  - 26 Major losses from hedging due to failure of production, (as in 2007 and likely future years) i.e.: drought, flood, diseases, frost, failure to sow due to wet conditions, harvest failure due to weather damage.
  - 27 No sharing of risk across a National Pool to share gains and diminish losses for the individual.
  - 28 Extreme pressure to take marketing positions because of volatility and risk now for the individual. Forward marketing and hedging was done by the National Pool operator before which could spread risk over all the Australian harvest. This cannot be done under the new Policy
  - 29 No body to put growers returns first as its charter.
  - 30 No opportunity for quality Australian wheat to sustain its brand value on behalf of growers and return the benefits to growers, and no real incentives to do so for traders and marketers. Just return profits to shareholders.

- 31 Failure of rural community infrastructure, corporate farms will take over, fewer family farms, with many corporate farms dealing away from their local community.
- 32 Loss of country schools, hospitals, ambulance, professional's accountants etc, banks many corporate farms deal with one bank so pot luck for local business.
- 33 No rail, bypass local silo for greater profit or survival, massive road safety issues, giant road maintenance and funding problems.
- 34 Loss of farm suppliers and machinery dealerships.
- 35 Loss of the most valuable people resource in rural communities, continued loss of young farmers. No transition of training and expertise from one generation to NEXT generation. Loss of local knowledge and experience.
- 36 Once the system is changed the AWB constitution will change and we could not go back to the National Pool we are familiar with today. AWBL would be rewarded for their Oil for Food involvement by escaping "Scott free" with all the intellectual property, National Pool proprietary information including customer book and know- how as well as a number of valuable systems developed and paid for by Australian wheat growers including wheat brands which could all be used to sell foreign wheat.
- 37 Increased rural mental health problems resulting in a higher suicide rate due to depression increased by Government policy which will directly reduce family farmer's income and farmer's ability to plan and budget their business. Added to the Federal Governments attitude of listening to big business and not the majority grower voice.

All this and more will be paid for by the Australian wheat grower not the buyers or traders. What will be the additional cost?

Will the additional cost be worth destroying a system that was not broken?

American farmers are welcoming this new Policy as it will make it easier for them to sell their wheat. That must surely alert the Australian Government that there is something wrong with their Policy?

If this new Policy cost the Australian wheat grower even \$1 it should be reviewed.

Australian wheat will be sold into a world market massively corrupted by Government grower subsidies designed to give their growers the ability to compete with the rest of the world growers, especially Australia with its quality wheat and the Single desk Single seller system. Is the Australian Government



prepared to offer their wheat growers the same subsidies to allow them to compete?

Why is the Australian wheat grower going to subsidise multinational and domestic company shareholder returns, with most profits going overseas?

Tony Bourke told us he will only tweak the new system. Tweaking will not come close to fixing the problems above.

Can the Government guarantee the Australian wheat grower that they will be better off under their new proposed system? Is the Government prepared for any legal action resulting from losses to growers from this rushed unresearched plan?

Through the senate enquiry the Government will be well aware of the possible losses the Industry may face.

A detailed Business Plan with detailed modeling and answers to the concerns above is required before the Government's export wheat marketing proposal and poorly constructed legislation is allowed to go any further.

As this new legislation directly affects wheat growers returns and their ability and to continue farming any proposed changes should be thoroughly explained to them and the growers should in a so called democratic country be allowed to vote in a plebiscite. Anything less would see the new Australian Government acting as a "dictatorship".

The proposed WEMA Auswheat plan was a better proposed system than the one the Government proposes. It has a Business plan and includes multiple exporters of Australian wheat controlled by a "not for profit" Grower controlled company called AUSWHEAT. Best of all it was put together by Industry representatives who know the Industry .To the best of my knowledge it has been shelved and ignored by Government.

A recent example of a Country removing its Single Desk is South Africa where it has been a disaster to its growers and country.

In summary it is my advice for the whole process to be deferred for 12 months giving the Industry a chance to look in detail at any changes and for the Government and its agencies in conjunction with the Industry to develop a detailed Business plan with the required modeling of the affects of any change to ensure that the Australian wheat grower is not punished financially or any markets are lost. It is not a breach of the Governments election Policy to defer any changes if it means getting it right.

For the next 12 months AWBI should run another Pool without the Government issuing any permits to allow Pool participants to reap the full

benefit of the National Pool. AWB has a constitutional obligation to offer a National Pool if required but it needs assurance from Government that the Pool will not be exposed to losses from the Government issuing Export Licenses.

I am available to the enquiry to answer questions related to this submission. Please do not hesitate to contact me for further comment.

Yours faithfully  
Darryl Kitto

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**Kevin Rudd MP**  
**LEADER OF THE OPPOSITION**

Mr Darryl Kitto

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8 February 2007

Dear Mr Kitto

Thank you for your correspondence regarding the Australian Labor Party's position on the retention of the 'single desk' for wheat exports.

The Australian Labor Party has supported the single desk wheat marketing arrangements for over 65 years since 1939. During that period Labor has been a strong supporter of the current single desk marketing arrangements and it remains Labor policy that the single desk should remain in place while ever these arrangements have support from the growers and the community as well as delivering a benefit to Australian wheat growers.

It is essential that the debate over the whether the single desk is the most appropriate arrangement for Australian wheat marketing is not overwhelmed by the wheat-for-weapons scandal and the revelations that came out of the Cole Inquiry.

A study by Econtech of the premium attributed to the single desk indicates that on the benchmark of Australian premium white grade of wheat, the single desk captures a premium of between \$15 and \$30 a tonne. The total annual value to Australian growers of this premium on Australian premium white is \$80 million. On all grades the average premium attributed to the single desk is \$13 a tonne and the total annual value of the premium on all grades is \$200 million.

While it is clear that the revelations of the 'wheat for weapons' scandal has damaged Australia's reputation overseas, it is also clear that the Wheat Export Authority put in place by the Howard Government has manifestly failed in its primary responsibilities. The Wheat Export Authority was established in 1998-99 to control the export of wheat from Australia and to

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monitor AWB's performance in relation to the export of wheat and examine and report on the benefits to growers that resulted from that performance.

The performance of the Wheat Export Authority in monitoring AWB has been the subject of criticism from both Labor and grower organisations for a number of years. The Wheat Export Authority completely missed the involvement of AWB in the wheat for weapons scandal, even though the potential impact on grower incomes was considerable. The incompetence of the organisation as it is currently staffed and structured was highlighted when it was revealed that it went through 2005 using the provisions of an out-of-date service agreement as the basis for monitoring AWB. It is important that the operation of the Wheat Export Authority be thoroughly reviewed as part of any process leading to improved arrangements for wheat marketing.

Labor is concerned that under the scrutiny of the WEA:

- AWB shareholders, many of them wheat growers, lost half the value of their investment;
- Trade with Iraq worth up to \$500 million a year was forfeited;
- AWB pool participants were potentially exposed to the impact of a number of Australian and International law suits;
- The AWB brand name was severely wounded; and
- The \$610 million that AWB inherited from the Wheat Industry Fund and the \$300 million it has captured as monopoly rent since privatisation have evaporated.

The WEA had the legislated powers to do the job it was required to do however it clearly lacked the will or resources. It is the Minister Warren Truss who had the responsibility for ensuring that the WEA undertook its primary roles and actually looked after the interests of wheat growers. Minister Truss and the Howard Government as a whole has failed completely in this regard.

Labor believes we must get it right when it comes to any proposals from the government that may change the single desk arrangements in the future. It is critical that the government through inadequate consultation on the future of the single desk does not further damage the interests of growers.

Australian wheat growers have been badly let down by the Howard Government through inaction that has led to Australia's export reputation becoming tarnished.

Labor's policy is to continue to support the single desk while we are convinced that there is strong economic value in the single desk for growers

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and the Australian economy and it retains the support of growers and the community.

Thank you for taking the time to contact Labor on this extremely important issue.

Yours sincerely



**Kevin Rudd**  
**Federal Labor Leader**  
**Member for Griffith**