

7 April 2008

Senator Glenn Sterle
Chair
Senate Rural and Regional Affairs and Transport Committee
Department of the Senate
PO Box 6100
Parliament House
CANBERRA ACT 2600

Dear Senator Sterle

Re: Inquiry into the Wheat Export Marketing Bill 2008 and Wheat Export Marketing (Repeal and Consequential Amendments) Bill 2008

The NSW Farmers' Association (the 'Association') welcomes the opportunity to provide a submission to the Senate Rural and Regional Affairs and Transport Committee Inquiry into the Wheat Export Marketing Bill 2008 and Wheat Export Marketing (Repeal and Consequential Amendments) Bill 2008.

The Association does not believe that the Wheat Export Marketing Bill 2008 provides Australian wheat growers with the confidence, clarity and certainty that is necessary in order to enable them to operate their businesses in an efficient and effective manner, particularly in view of the rapid introduction of the changes to wheat marketing as proposed under the Bill.

Please find attached a submission which provides details regarding the Association's concerns in relation to the Bill. The Association eagerly awaits the outcomes from the deliberations of the Senate Committee regarding this important issue.

Yours sincerely



Jock Laurie
PRESIDENT

**Submission to
Senate Rural and Regional Affairs and
Transport Committee**

**~ Inquiry into the Wheat Export Marketing Bill 2008
and Wheat Export Marketing (Repeal and
Consequential Amendments) Bill 2008 ~**

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Introduction

The NSW Farmers' Association (the 'Association') is Australia's largest State farmer organisation representing the interests of the majority of commercial farm operations throughout the farming community in NSW. Through commercial, policy and apolitical lobbying activities the Association provides a powerful and positive link between farmers, the Government and the general public.

The Association welcomes the opportunity to provide a submission to the Senate Rural and Regional Affairs and Transport Committee Inquiry into the Wheat Export Marketing Bill 2008 and Wheat Export Marketing (Repeal and Consequential Amendments) Bill 2008.

Comments on the Bill

The Association does not believe that the Wheat Export Marketing Bill 2008 provides Australian wheat growers with the confidence, clarity and certainty that is necessary in order to enable them to operate their businesses in an efficient and effective manner, particularly in view of the rapid introduction of the changes to wheat marketing as proposed under the Bill.

The Bill has the potential to create an imbalance of power in favour of non grower sectors of the value chain. The Association has identified the following issues in regard to the Bill which it believes are in need of addressing.

1. Possible loss of the benefits provided through a national pool as there is no provision under Bill for the existence of a single national pool which may result in the loss of valued benefits such as the Golden Rewards Pricing Scheme.
2. The current marketing skills and knowledge of growers is likely to not allow the efficient operation of their business within the new marketing environment.
3. The Bill must provide fair and open access to port and country facilities.
4. An independent body should be responsible for the administration of a quality assurance scheme in order to maintain Australia's reputation for the production and export of quality wheat.
5. The Bill should require as part of a company's accreditation to export wheat that the company agrees to collect end point royalties on plant breeder rights wheat varieties at a reasonable cost.
6. The costs associated implementing changes and with establishing a new system for the marketing of export wheat needs to be carefully considered because it is likely these costs will be passed back to growers.
7. Further consideration is required of the Wheat Export Marketing Alliance business plan as it proposes the involvement of an industry owned entity to perform some of the fundamental administrative procedures not currently proposed to be undertaken by Wheat Exports Australia.

These points will now be expanded upon in order to clearly articulate the Association's concerns.

Possible loss of the benefits provided through a National Pool

The Association believes that the existence of a national pool as currently known under the single desk wheat export marketing arrangements with management by AWBI is a major benefit to the marketing of Australian wheat exports. For example the pool allows for the orderly disposal of the Australian export crop and growers are paid an 80% advance within 21 days of delivery through a non recourse loan. The pool is then sold down over a period depending on the size of the crop.

The existence of significant market power on the international wheat export market is provided through a national pool. Australia grows approximately 2.8% of the world's wheat requirements, however Australia accounts for 15% of world exports, therefore placing Australia amongst the top five largest exporters in the world. This market power is largely attributed to the fact that Australia's wheat export marketing efforts are concentrated to one marketer therefore providing wheat growers with a distinct market advantage over other competitors due to the following factors;

- Access to a wide range of markets through Australia's volume of production in the international arena;
- Economies of scale in supply and logistics;
- Ultimate responsibility for 'industry good functions', branding and quality assurance was determined and managed by one organisation (AWBI) and these activities were held accountable and payed for by growers through the national pool;
- Australian wheat growers operate in a high cost environment and therefore quality and product integrity is of the utmost importance in ensuring Australian wheat remains competitive; and
- Access and continuity of supply and quality to perennial markets.

Whilst it is understood that under the proposed changes to wheat export marketing the holders of wheat export permits may run a national pool, there will be multiple national pools operating at the same time which the Association therefore believes will negate many of the benefits which were provided under the one national pool through a single desk.

As the holder of the national pool, there is a constitutional requirement for the AWBI to accept all wheat from growers provided it meets market specifications. This mechanism provides benefits such as; growers in southern areas of the east coast of the Australian wheat belt as they may miss out on the majority of the market due to the late nature of their harvest compared to the rest of the country. This is because by the end of the Australian winter wheat harvest the majority of buyers have made considerable efforts to meet and fulfil their requirements. Historically the price of wheat on the cash market falls considerably for this reason. However under the Wheat Export Marketing Bill 2008 there is no requirement for there to be a buyer of last resort. The Association feels that consideration for ensuring that pools accommodate the needs of the entire wheat belt is paramount.

The introduction of Golden Rewards pricing scheme was an initiative established by AWB in order to reduce the effects of 'cliff face' pricing. The Association would envisage that pool operators would be obligated to maintain the benefits of golden rewards in order to prevent the digression of pool delivery pricing.

Current marketing skills and knowledge of growers

The Association believes that the movement away from an orderly marketing system will leave many growers without the necessary marketing/hedging skills and knowledge which will be required to operate their businesses efficiently within the new marketing environment. These growers have traditionally relied on the expertise of AWBI and the benefits provided through the national pool however they will now be forced to operate in a fluctuating cash market where a sound understanding of price risk fundamentals is paramount to the financial stability of their business. The Association is therefore recommending that as part of the implementation of the Bill, the Federal Government fund training and education for growers in the areas of grain marketing and risk management.

Fair and open access to port and country storage facilities

The Association believes fair and open access to port facilities is an essential requirement for wheat export marketing and this should be extended to include up country receival points, and rail access. If this access is not closely scrutinised it will provide an unfair advantage in an environment which is attempting to stimulate competition. There is also a need for a reporting system which is upgraded weekly that will allow growers at any time during the year to know how much grain is on hand as well as the quality of the grain. This will allow farmers to value their grain more easily using supply and demand principles.

Administration of a quality assurance scheme

Australian wheat growers have one of the most respected marketing and quality assurance systems in the world. This system has enabled Australia to remain competitive in a global market. Due to the high production costs which are involved in wheat production, it is essential that quality assurance, and in turn market share is maintained. The role of quality assurance is much broader than the role currently undertaken by the Australian Quarantine and Inspection Service. The Association believes there needs to be an independent body that is responsible for the administration of a quality assurance scheme in order to maintain Australia's reputation for the production and export of quality wheat. Furthermore the branding of Australian wheat such as Australian Prime Hard and Australian Soft Wheat has taken years to develop and these products have been well received by buyers around the world. The Association does not believe that adequate provisions have been provided for in the Bill that will enable a quality assurance scheme to be administered by an independent body.

Collection of end point royalties

The Association believes there should be an additional requirement under '*Division 3 – Eligibility for accreditation*' for the collection of end point royalties ('EPRs') on plant breeder rights wheat varieties. Accordingly the Association recommends that the new legislation for wheat export marketing include a requirement for licencees to have systems and processes in place so they are able to report annually to their licensor that '*to their reasonable knowledge and belief the obligations to pay EPRs on the grain they have purchased and plan to export have been met.*' The requirement for traders to have systems and processes relating to EPR obligations is a component of the accreditation process for an organisation to be confirmed as one that is "fit and proper" to receive a bulk wheat export licence. Accordingly this requirement should be specifically included in the legislation through an addition to the eligibility for accreditation for a company which wishes to export bulk wheat.

Cost of implementing the changes

The Association is concerned that the costs associated with establishing a new system for the marketing of export wheat will be passed back to growers who are under significant financial pressure following several years of drought. Furthermore there are other stakeholders in the grains industry who will benefit significantly from the changes to the marketing arrangements and accordingly these organisations should meet some of the costs which otherwise will be met by growers. It has been indicated by AWB that the cost alone of delivering industry good functions was in excess of \$10 million annually. The Association believes that due to the need for industry change and the adoption of new and varied marketing skills while developing the appropriate placement of industry good functions arrangements an education and compensation scheme should be provided to industry to counter the financial impact which may occur through the rapid changes to wheat export marketing without timely preparation. Accordingly the Government should consider funding the transition over a period of three years at \$15 million per annum.

Wheat Export Marketing Alliance

The Wheat Export Marketing Alliance ('WEMA') business plan was developed by the State Farming Organisations and it was funded by growers. This plan addresses the foreseeable concerns associated with the Bill and the plan proposes the establishment of an industry body which would be responsible for many of the underlying industry good functions including quality assurance to the industry. The Association believes that further consideration is required of the WEMA business plan as it proposes the involvement of an industry owned entity to perform some of the fundamental administrative procedures not currently proposed to be undertaken by Wheat Exports Australia. Please find attached a copy of the WEMA business plan which provides further information on these issues.