



**The Western Australian
Farmers Federation (Inc.)**

9 May 2008

Ms Julie Harman
Manager Strategic Issues
Economic Regulation Authority
PO Box 8469
Perth Business Centre PERTH WA 6849

Dear Ms Harman

Draft Report – Review of the Grain Marketing Act 2002

The Western Australian Farmers Federation (WAFarmers), the State's largest representative farmer organisation, notes with concern the recommendations of the ERA Draft Report (the "Report") on the Grain Marketing Act. The key findings on which the Authority appears to have based its recommendations are in our view inconsistent with the wishes of growers and do not adequately address a number of specific export grain industry issues.

Notwithstanding the volume of work presented in both the Issues Paper and the Report the Review has not addressed grass roots issues that growers know from practical experience to support orderly marketing arrangements for export in bulk. The Report has focused on delivering outcomes that satisfy the concerns and complaints of grain traders despite the Grain Marketing Act being about acting in the best interests of the grower.

In terms of particular Key Findings we raise the following in the form of rebuttal and/or points that warrant further consideration:

- 1) ***"Following the anticipated removal of ... restrictions on the export of wheat ..."; and***
- 2) ***"... following the removal of restrictions under Commonwealth legislation..."***

The ALP policy document on wheat marketing released by Mr. Rudd and Senator O'Brien in October 2007 contained the following statement - *"Labor proposes a new model for exporting wheat which retains a single desk for the control of wheat exports and which increases choice to growers by offering a number of selling options"*.

Senator O'Brien also said at a Senate Committee hearing in Perth on 31 March 2008 in respect to the government's proposed legislation - *"It is a form of regulation that you may not agree with, but it is a form of regulation nevertheless is it not?" (Hansard RRA&T p45)*

The ERA's position is therefore inconsistent with statements coming from the federal government.

- 5) ***"... there is no indication that single desk marketing results in price premiums ..."; and***
"... there does not appear to be a net public benefit in retaining restrictions ..."

The ERA draws on reports that adopt the ACCC view that 40% market share is required to exercise market power. The critics of orderly marketing point to WA's market share measured against total demand of particular importing countries that buy WA prescribed grains. As a supply source, WA has acknowledged advantages over other sources and WAFarmers believes it is more appropriate to assess market power based on the level of control over prescribed grains available for export from WA. The ability to use price discrimination, redirection and other single desk marketing techniques is determined by control over exportable grain. The MEL, as the growers' marketing agent, should therefore always be in a position to manage a large proportion of export stocks to maximise returns to the producer ahead of investor interests.

To grain growers, and the wider community, measuring "net public benefit" must be taken right back to the impact on regional and rural communities. There is no evidence in the Report that this "whole of community" approach has been adopted.

Prescribed grains are freely marketed on the domestic market with buyers also able to access lower cost pathways to market compared with export grain. As such the price to domestic consumers will reflect open market conditions with many sellers and relatively few major buyers.

6) "Since the Act was introduced, there has been a shift from traditional harvest pools ... as the dominant method of buying export grain."

The implication that this shift supports in some way the dismantling of orderly marketing does not withstand proper scrutiny. The Act is directed at creating orderly selling into export markets by licensed marketers. The 2002 Act does not restrict innovation in how authorised export marketers deal with suppliers. The reported shift in financial options being made available to growers is of a secondary nature to the structure under which export trade is to be conducted. Other than section 28 and the extent of the buyer's imagination, there is no restriction on how a license holder can deal with growers when pricing prescribed grains being acquired for export.

9) "... adversely impact on the ability of the SEL to complete in the ... export market ..."

The Grain Marketing Act is designed to benefit grain growers. The Minister said in his September 2002 second reading speech - *"The provision for special export licences is not intended to undermine the benefits of the single desk and the market power that it creates. The intention is that special export licences will provide a mechanism for industry to capture opportunities outside the single-desk system while maintaining the benefits for grain growers that flow from it"*. However the ERA Report sides with grain traders and against growers on a number of issues. The traders complain that trading in illiquid markets has inherent risks and have submitted that the ERA should take steps to fix their problem. Traders have also claimed they are not able to capitalise on market volatility and want licensing conditions skewed in their favour to be able to do so. An objective of orderly marketing is to reduce market volatility but the ERA Report has clearly favoured the interests of grain traders ahead of growers.

11) "Deregulation of the wheat industry is likely to lead to investment in Western Australia ... "

To gain market access grain traders have always held out that they would inject new investment into the industry. The reality of any significant new infrastructure investment is however, remote. The recent announcement of the CBH "Grain Express" concept has delivered a windfall gain to those hoping to enter the export wheat market as they are using the access regime argument to gain a "free ride" on the back of existing grower funded infrastructure without making any long term commitment to sustaining that infrastructure.

12) "The removal of ... licensing ... is likely to lead to greater competition in the WA grain market."

This recommendation is a further reflection of the preoccupation in the ERA Report to delivering what traders want, in preference to respecting the wishes of what growers want for their export industry and their regional communities.

15) "Given the ... new Federal wheat export scheme, it would be preferable that the recommended arrangements ... be in place for the 2008/09 harvest."

There is ongoing and considerable uncertainty surrounding just what form the wheat export scheme will take. The Senate Committee has recommended that the Exposure Draft Bill be amended. The recent survey conducted by the Independent Member for the federal seat of New England has also raised a number of issues we understand to now be of interest to the government in view of strong grower endorsement of single desk marketing.

The Wheat Industry Expert Group report has also identified a raft of matters that require extensive research and grower education if the yet to be finalised changes to export wheat marketing are to be properly managed.

It is totally inappropriate and unnecessary to force onto WA prescribed grains producers further marketing changes at a time when growers will be fully taxed in having to deal with changes to wheat marketing in the run-up to the 2008/09 harvest.

With most WA prescribed grain growers also wheat producers, changing prescribed grain marketing arrangements at this stage would place the WA industry under immense pressure to the point of many growers being pushed to the edge. In its report on the wheat industry the advisory firm ITS Global stated – *“Change for change’s sake is likely to be counter-productive and rapid change of the Single Desk arrangements would incur high unintended costs for wheat growers, especially those 12,500 small to medium wheat growers in the eastern wheat belt of Western Australia, the Eyre Peninsula of South Australia and western New South Wales.....”*

The current GLA model is a well functioning and understood process. Change would be for change’s sake.

WAFarmers is disappointed over the manner in which grower opinion has been dismissed throughout the ERA process. International grain markets are volatile and there has been little regard given to the risks and consequences of such volatility on WA grain growers. The current strong market demand will come to an end as large scale production returns supply and demand outcomes across all grains to traditional levels with stocks needing to be held for extended periods before shipment overseas.

The Report does not address the information requirements of growers in the market that the ERA advocates should exist. It has been recognized in the wheat marketing debate that grain growers would be at a significant disadvantage in a freely traded market as they would not have access to reliable, timely and appropriate market intelligence. WA grain growers essentially produce for the export market and true international price discovery would be a critical requirement of any deregulated market. However as individual sellers grain growers would have very little, if any, access to meaningful international pricing data. The Report fails to recognise this critical market requirement or acknowledge that a local price could be at a significant discount to true international market values. By way of example, in December 2006 Indonesian media reported that by sourcing 500,000 tonne of WA wheat “directly from the co-operative” a buyer had secured a massive 10% discount on ruling market prices.

The ASX submission on wheat marketing is quoted in the Report. As would be expected the ASX pushed the “would consider” line in regard to new product offers. However the ERA appears to have taken this statement very much on face value, failing to comment on the many difficulties associated with establishing a liquid derivatives market that accurately reflected international cash market prices for WA prescribed grains all year round. The Report argues that WA export barley, canola and lupins face a high substitution risk and production is small by international standards, yet it fails to offer any cautionary warning against relying on what many financial and grain market experts would see to be a simplistic and overly optimistic ASX sales pitch that they could provide a workable derivatives market for WA prescribed grains.

The Report acknowledges grain markets can be volatile. The Report also refers to industry dynamics. Yet despite the biometricians’ qualifying statement that their economic model is not capable of identifying what caused cash prices to shift, the Report advocates without any argued reasoning, the cause was the issuing of licenses and as such more would be gained by doing away with all licensing.

WAFarmers rejects that proposition. In the considered opinion of WAFarmers no action should be taken to vary the current GLA model until such time as the wheat industry has come to grips with, and has marketed satisfactorily at least two typical annual wheat crops. To act any earlier would not be in the interests of WA prescribed grain growers or the very many people throughout the State who are part of the production chain.

As a response to the ERA’s Report, WAFarmers has no objection to this letter being treated as a public document.

Yours sincerely

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