



**Response to  
Review of the  
Grain Marketing Act 2002  
Issues Paper – 5 December 2007**

**February 2008**

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## About the Respondent

The Western Australian Farmers Federation (Inc.) (*WAFarmers*) is the state's largest and most influential primary producer representative body. With membership in excess of 3,500 *WAFarmers* represents the collective opinion of primary producers with the aim of ensuring a long-term future for agriculture in Western Australia.

*WAFarmers* provides members with comprehensive industry specific information such as marketing and market trends, market structures, changes to legislation and regulations, farming economics, new products and innovations as well as helping farming families access succession planning assistance.

Members of *WAFarmers* are well informed on a wide range of economic, business and social issues and hold well considered views on key issues within their industry. *WAFarmers* membership is cross generational and includes many "young progressive" farmers. Through its diversity of membership the standing and credibility of *WAFarmers* in advocating the majority view of Western Australian grain growers is unsurpassed and has no peer.

*WAFarmers* are also strong proponents of approaching the grains industry from a "triple bottom line" perspective, ensuring appropriate and balanced outcomes are delivered across the three dimensions of the environment, social and cultural, and economic considerations.

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## Foreword

It is understood by *WAFarmers* the Terms of Reference for this ERA inquiry were issued based on the decision of the South Australian Parliament to vary grain marketing arrangements in that state. That decision left only WA with a state based grain marketing regime.

*WAFarmers* refute any suggestion the decision with respect to the South Australian grains industry reflects the wishes of WA growers or the needs of the Western Australian grains industry.

Since the Terms of Reference were issued the federal Minister for Agriculture, Fisheries and Forestry has issued terms of reference for, and called for expressions of interest in sitting on, a wheat Industry Expert Group. Whilst there is speculation about the direction export wheat marketing might or might not take the *WAFarmers* response to the ERA Issues Paper is based on the WA grains industry as currently structured. The extent to which any amended Wheat Marketing Act would confront the views of *WAFarmers* and its members is unknown.

It will be some time before it is possible to establish to what extent the ERA inquiry might be addressing issues and relationships that are on the verge of change. *WAFarmers* intends to revisit the ERA Issues Paper and this Paper taking into account any new information that comes to hand to ensure its position remains appropriate. *WAFarmers* will keep the Authority informed of any such review and requests a reciprocal commitment from the Authority.

In responding to the issues being raised *WAFarmers* totally rejects the TINA<sup>1</sup> catch cry usually advanced by the school of economic rationalists and a very small albeit noisy grower minority when calling for the dismantling of statutory export grain marketing arrangements.

The importance of the 2005 National Competition Council determination that Western Australia has satisfied the requirements of the Competition Policy Agreement and public benefits tests with respect to the Grain Marketing Act must not be lost or down played. Nor should the wishes of the vast majority of WA grain growers be ignored and ranked behind non-grower interests.

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<sup>1</sup> TINA - There Is No Alternative

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## WAFarmers' Position Outline

**WAFarmers is the largest grower representative organisation within the WA grains industry and -**

- Supports** continuation of Grain Marketing Act 2002 and the Grain Licensing Authority
- Supports** existence of a strong grower focused orderly marketing system for export marketing of prescribed grains in bulk
- Supports** existence of a system of orderly marketing that prevents Western Australian bulk prescribed grains competing against Western Australian bulk prescribed grains on export markets
- Supports** development of grain processing opportunities within Western Australia
- Supports** development of increased State-wide capacity to export containerised grain
- Supports** community expectations that grain growers and the grains industry as a whole reduce their greenhouse emission "footprint"
- Supports** a balanced mix of family and corporate farming enterprises
- Supports** initiatives that strengthen regional and rural communities
- Supports** the maintenance of rural land values
- Supports** regional road and infrastructure objectives of rural communities and the Western Australian Local Government Association
- Supports** ongoing work to establish economic and financial modelling tools to reflect the market place under the GLA arrangements

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## WAFarmers and Change

**WAFarmers has a history of prompting grain industry change where appropriate, having -**

- Supported** deregulation of land transport for grain (circa 1980)
- Supported** introduction of Plant Variety Rights legislation (1987)
- Supported** total deregulation of the Australian domestic wheat market (1989)
- Supported** introduction of Plant Breeders' Rights legislation and end point royalties (1994)
- Supported** commercialisation of regional ports of Albany, Esperance and Geraldton (1999)
- Supported** amalgamation of CBH Ltd and The Grain Pool of WA (2002)
- Supported** total deregulation of the domestic prescribed grains markets (2002)
- Supported** total deregulation of the export of prescribed grains in containers and bags (2002)
- Supported** deregulation of the export of wheat in containers and bags (2007)

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## Producers' Voice

**WAFarmers represents the views of the majority of the State's grain growers when advocating -**

**Support** for use of rail in preference road to move grain from country receival point to export terminal

**Support** for an export marketing system that

- i) maximises grower returns
- ii) includes a buyer of last resort
- iii) provides security of payment
- iv) ensures market access
- v) provides reliable Estimated Pool Return figures
- vi) countervails the market power of multi-national trading companies
- vii) offers protection against weak sellers
- viii) stops Australian grain competing against Australian grain in international markets
- ix) manages state-wide grain stocks to extract maximum value from available quality for the equitable benefit of all growers
- x) rewards growers based on delivered grain quality
- xi) captures and reflects in grower returns the WA "blue water" freight cost advantage

**Support** for an ongoing not-for-profit style co-operative as owner operator of the state-wide grain storage, handling and ship loading network

**Support** for competitive inland freight logistics that maximises grower returns from existing regional and port infrastructure

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## **WA Grains Industry – in a premier league of its own**

**The WA grains industry is different to the rest of Australia and must**

- ◇ **be positioned according to needs;**
- ◇ **not succumb to “follow-the-pack” mentality;**
- ◇ **avoid financially volatile pathways to market;**
- ◇ **keep its premier league status;**
- ◇ **oppose market “experimentation” (i.e. economic rationalism from which there is no return);**
- ◇ **provide a marketing environment in which farm incomes are secure and sustainable,**

**taking into account local features such as -**

- growers value and support the orderly marketing of prescribed grains
- industry infrastructure under grower control
- large geographically diverse growing area
- existing integrated country silo/rail net work
- existing large trucking movements during harvest
- infrastructure damage from an increase in “road kilometres” and green house emissions per delivered tonne can be prevented
- shire and State roads are in no condition to handle increased traffic
- local authorities are under financial pressure to maintain roads in current environment with no capacity to handle increased traffic
- greater likelihood of having meaningful annual exportable surplus compared with other states
- Main Export Licence holder is the only reliable avenue to satisfy customer needs for long-term security of supply, quality and service
- lack of domestic market of any size
- domestic demand concentrated on Perth area
- containerised exports reliant on Fremantle
- significant “blue water” cost advantages
- greater reliance on export markets
- post farm-gate bio-security risks managed by grower owned entity

## **WA Grains Industry – in a premier league of its own (cont)**

- Main Export Licence holder value adds for the benefit of every grower via services contracts and integrated value chain management based on economies of scale
- National Agricultural Commodity Marketing Association (NACMA) sets WA specific grain quality standards for Western Australia

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## WA Grains Industry - new innovations or history repeating

**WAFarmers agree growers have more marketing and financing options than before. The reasons are numerous. Suggestions GPPL changes only came about because SELs (Special Export Licences) were introduced is speculative. GPPL has a pre-GLA track record of innovation that would have continued had there been no GLA. GPPL innovations through its co-operatively owned integrated business model included –**

- Pre-seeding grower finance packages
- Cash payment options
- Optional Pool Equity Cash-outs
- Harvest top-up advances
- Deferred grain payment options
- Deferred settlement terms for up-country freight cost
- Aerated grain storage systems
- Introduction of high moisture receival standards
- Receival quality average stack management
- Delivered added value to growers from stock management e.g. stock blending, freight movements
- Shifted industry from commodity to product marketing
- Payment for delivered grain quality removing cliff face pricing
- Introduced provisional quality discounts
- Retro-active quality up-grades
- Growers only marketing Pool
- Multiple seasonal pools
- Introduction of a Traders Pool
- Introduced Shochu barley segregations
- Varietal trial segregations
- Pools funded at wholesale interest rates
- Grain Quality Assurance programs and incentives
- Price hedging services

## **WA Grains Industry - new innovations or history repeating (cont)**

- Pre-seeding free-of-charge market briefings
- Product Research and Development (Malting; food; feed, industrial uses) (maintained Grain Research Fund; established Malting Barley Industry Technical Committee)
- Guaranteed Minimum Price to establish canola industry
- Secured ocean freight rebates and price advantages unique to GPPL under MEL and passed to growers in full

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## Comments on ERA Issues Paper

### 1 Introduction

#### 1.2 Background to Inquiry and 1.3 Structure of Issues Paper

Extensive referenced material throughout the Issues Paper provides guidance on matters of interest to the ERA and on which *WAFarmers* need to focus.

The views expressed in this *WAFarmers* Paper are a reflection of both members and grower opinion beyond *WAFarmers*' immediate membership base.

*WAFarmers* policy on exporting wheat in bulk was confirmed by the Wheat Export Marketing Consultative Committee chaired by Mr. John Ralph OA to be consistent with the views of at least 70% of growers. *WAFarmers* believes similar if not greater support exists within the WA prescribed grains industry.

More recently anecdotal evidence has emerged of increased grower support for orderly marketing concepts. This follows periods of significant market volatility including the decision of a number of buyers to "close their book" during harvest leaving growers in a highly uncertain and anxious state as to the demand and price outlook for the remaining crop year.

The 2002 decision to maintain control over the export of prescribed grains from Western Australia is a reflection of conditions that existed at that time. Those conditions continue to exist in WA compared to the very different market conditions elsewhere in Australia.

Important distinctions between the grains industry in WA and elsewhere in Australia must be taken into account.

To the casual or uninformed reader of the Issues Paper reference to National Competition Policy initiated state reviews in section 1.2 tends to lead the reader to the view that WA is "out of step" with market conditions.

*WAFarmers* strenuously argues such a conclusion would be wrong.

The importance of the 2005 National Competition Council determination that Western Australia had satisfied the requirements of the Competition Policy Agreement with respect to the Grain Marketing Act must not be lost.

The WA grains industry has no peer within the wider Australian industry. The requirements of the WA industry are such that different circumstances warrant different solutions to what has been or what might be decided elsewhere in Australia.

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**1 Introduction**  
**1.2 Background to Inquiry and**  
**1.3 Structure of Issues Paper**  
(cont)

*WAFarmers* preliminary response to section 1.2 is therefore expressed in the form of an observation and request for clarification.

In the Treasurer's terms of reference to the ERA the wording is:

*"...the ERA is to consider and have regard to:*

- ...
- ...
- ...
- *the implications of relevant changes in grain marketing in Australia and internationally*".

However the Treasurer's wording has been translated at the end of section 1.2 into the following:

*"It is within this context of grain market reform that the authority has received the Terms of Reference to undertake an inquiry and provide advice on the ways in which the effectiveness of grain marketing in WA can be enhanced."*

**Observation:**

The Issues Paper appears to infer, incorrectly in the view of *WAFarmers*, that -

1. WA is the only state not to have undertaken grain market reform; and
2. the WA industry is no different to other states.

**Request for Clarification:**

Whilst *WAFarmers* has expressed views on a range of matters relating to the WA market, the Authority is requested to address the perception and inference conveyed in section 1.2 that the WA industry had shunned change over the past 5 years and was in need of "reform".

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## 2.1 The WA Grain Market

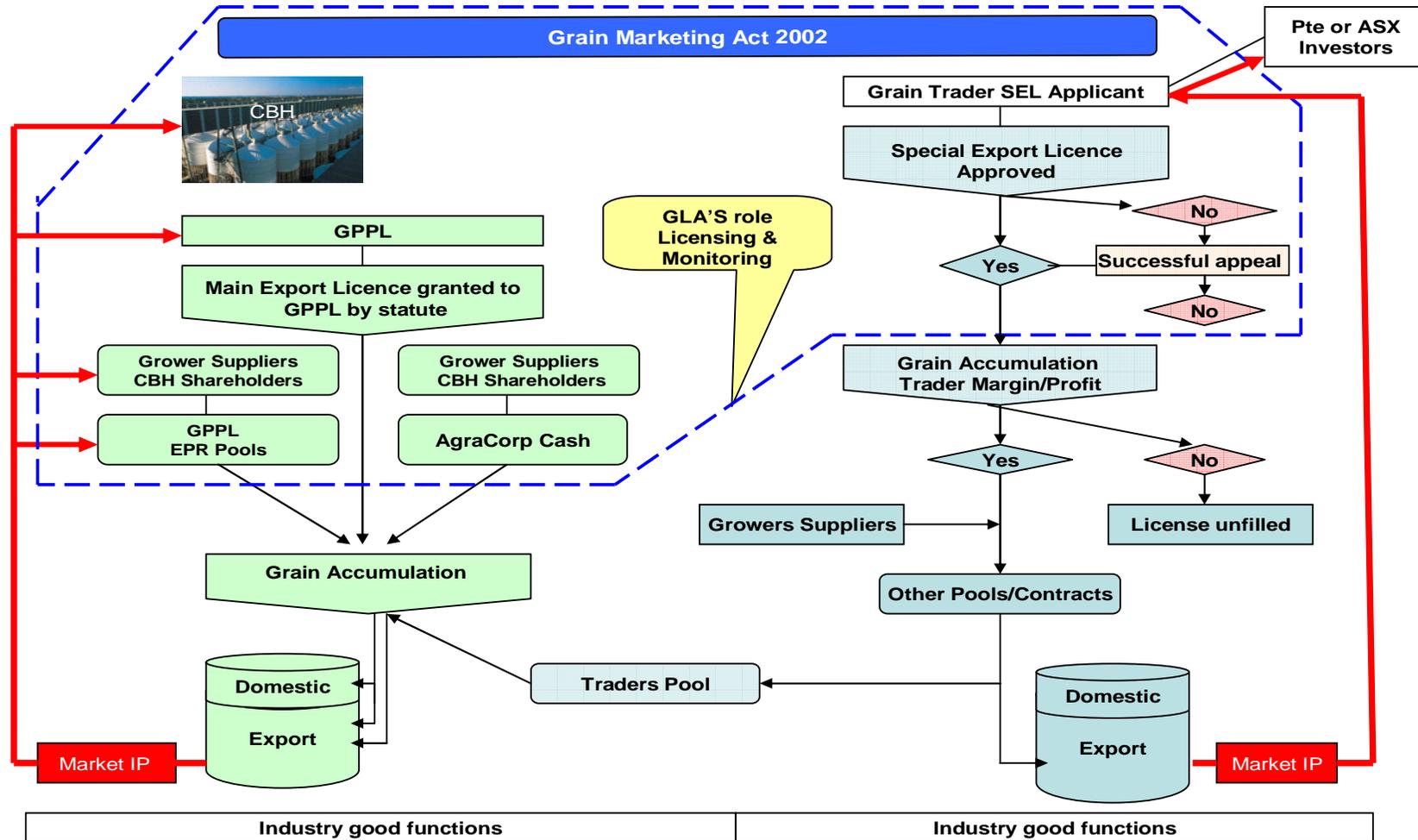
Grain Pool Pty Ltd (GPPL) and its predecessor entities (The Grain Pool of WA and before that the Grain Pool, the WA Barley Marketing Board and the Seeds Board and before them The Trustees of the Wheat Pools of Western Australia) all operated as the growers' marketing organisation. The cooperative business model basis of each of those relationships was very different to the relationship between a grower and an investor driven grain buying entity.

From a producer's perspective the Issues Paper *Figure 1 WA Bulk Export Grain Market* is too simplistic and fails to give appropriate recognition to the position of growers in the market place. Growers, as suppliers and the key stakeholder group need to be acknowledged in any schematic representation of the industry. The company structure of industry participants and their relationship with growers is critical and should be clearly depicted.

An alternative Figure 1 has been compiled to convey the growers' sentiment towards the underlying roles within the bulk export grain market.

Within the Issues Paper numerous references are made to GPPL being a buyer/trader. From a grower's perspective GPPL (the holder of the Main Export Licence [MEL]) is their grain marketing organisation. Growers view GPPL as their market agent. The granting of Special Export Licences (SEL's) has given rise to the presence of multiple sellers offering the same product into the export market in competition with each other. In the same way growers seek to reduce farm input costs by having multiple sellers competing for their business, overseas buyers do likewise when they can source WA prescribed grains from more than one seller.

Figure 1 Enhanced WA Bulk Export Grain



## 2.2 Storage and Handling Freight

Whilst the Bulk Handling Act granted CBH a monopoly to receive and store bulk grain until 31 December 2000 the legislative monopoly ended in 1990 following amendments to the Wheat Marketing Act 1989.

When the Bulk Handling Act was amended by the Bulk Handling Amendment Bill 2002 the Explanatory Memorandum contained the following statement:

*Section 39 gave the Company the sole right of receiving and delivering grain. This right expired on 31 December 2000 so the section may be repealed. (In any event the Company in fact lost its sole handling right by virtue of the operation of the Wheat Marketing Act 1989 of the Commonwealth and the State Act of the same name.)*

CBH has therefore faced competition for almost two decades during which time the Co-operative has delivered high quality services at prices well below east coast handling companies.

Unlike the eastern seaboard and South Australia, control of the WA grain storage system has remained with a farmers' co-operative. Transporting grain from up-county silos to export terminals has also been managed on an industry-wide basis through a series of long-term performance based contracts since 1989/90. These arrangements have delivered a low cost state-wide integrated storage handling and transport system made possible by the combined synergies of the two major grain marketers (MEL and AWBI).

Further fragmentation of the prescribed grain marketing arrangements will result in the loss of the critical mass that underpins management of the grain logistics and the delivery of logistics savings and efficiencies to all growers in line with the extract on the next from the Planning and Infrastructure's February 2007 submission to the Wheat Export Marketing Consultation Committee.

## 2.2 Storage and Handling Freight (cont)

WHEAT EXPORT MARKETING CONSULTATION COMMITTEE  
WESTERN AUSTRALIAN GOVERNMENT PLANNING & INFRASTRUCTURE SUBMISSION

### 5 CORE PRINCIPLES

**The coordination of shipping requirements for export grain by an appropriate logistics mechanism at the service of a small number of grain marketers should improve supply chain logistics and avoid unnecessary duplication of assets.**

**In Western Australia it is not reasonable to expect regional farming communities to meet the total capital cost of land transport infrastructure (both rail and road) given the high costs, long distances and small populations involved.**

**Regional rail lines can operate successfully when there is sufficient volume to generate the revenues needed to make the service both safe and viable when compared with a competing road service.**

There are a number of core principles that underpin this Government's position.

#### Freight Logistics

- An efficient supply chain for grain is best obtained through the coordinated use of the land transport, storage and handling system devoid of unnecessary duplication of assets.
- Such a system becomes possible through the coordination of shipping requirements for export grain.
- This role can be performed by an appropriate mechanism at the service of a small number of grain marketers with an agreed defined protocol for priority allocation.
- The number of grain marketers should be such that the risk of unnecessary duplication of assets is avoided.

#### Grain Transport Network Cost Recovery and Operation

- In Western Australia it is not reasonable to expect regional farming communities to meet the total capital cost of land transport infrastructure (both rail and road) given the high costs, long distances and small populations involved.
- Regional rail lines can operate successfully when there is sufficient volume to generate the revenues needed to make the service both safe and viable when compared with a competing road service. Where such lines exist roads should be used predominantly for community access and the transport of other products and not for bulk grain transportation.

The work of the Department of Planning and Infrastructure Grain Infrastructure Group must also be taken into consideration with particular emphasis on the need to maintain a viable rail network for the transport of grain.

Within section 2.2 there are references to the operations of the Essential Services Commission of South Australia (ESCOSA) and the Victorian Essential Services Commission (ESC). A footnote reference has also been made to a Queensland government Review of Current Port Competition and Regulation. There is also a reference to the COAG Competition and Infrastructure Reform Agreement.

WAFarmers believes a direction from the Treasurer to the ERA that port infrastructure access regime matters are expressly not within the Terms of Reference. Whilst there is no express reference to access regime issues within the Terms of Reference a direction is required to avoid

the inquiry going into areas beyond the intended scope of work.

## 2.2 Storage and Handling Freight (cont)

If the Treasurer will not give such a direction to the ERA, *WAFarmers* believe a definitive statement from the Authority is required as to its intentions with regard to addressing matters to do with access to port infrastructure.

**Whilst** the ERA's 2006/07 Annual Report made reference to port and rail access reviews for the Pilbara, no other port/rail access inquiry appears to have been initiated.

## 2.4 Export Markets

In respect to barley the Issues Paper makes reference to the selection rate for malting barley drawing comparisons between countries. However the underlying reason why Australian selection has been considerably and consistently higher is not explained.

**A** key feature of the Main Export Licence holder's role is that of being the growers' market agent. Using seasonal pools growers pass to GPPL control of malting barley at harvest time to manage the marketing and logistics tasks from barley stock piled in the state-wide network of grain storages owned and controlled by growers through Co-operative Bulk Handling. In the case of Canada where the selection rate averages less than half that of Australia there is no front-end management of the crop with growers required to stock pile on their own account and wait to be called on to fill an order.

**Buyers** of prescribed grains are also seeking security of supply, quality and service with increasing market concerns over food security and bio-security.

**If** the MEL role was removed there would be no front-end management of the state's barley crop and the malting barley selection rate would fall leading to a significant drop in annual farm returns. It is the front-end management on behalf of the grower that delivers stability and value. If that role was removed or further diminished the malting barley selection rate would drop. It would then be much more difficult to commit to long-term supply agreements.

**The** same front end management approach is deployed for the WA canola lupin crop to add value and certainty for growers. It is also possible given an acceptable degree of certainty around access to prescribed grains at harvest for the MEL holder to commence front-end management of the crop well before harvest and possibly as early as Easter.

## 2.5 Recent Domestic and International Changes in Grain Marketing

It is acknowledged that a clear understanding of the market place is a prerequisite to good public policy making and sound business outcomes. The Issues Paper provides a précis of recent domestic and international matters and addresses in part changes and mooted changes.

The Paper refers to significant changes in the global market with five multinational agribusiness companies now accounting for around 80 per cent of the global grain market.

There has long been a need for a system of exporting grain from Australia that countervailed the power of international trading houses. The closing statement on page 16 of the Issues Papers that “internationally competitive grain markets have evolved” is incongruous to the opening statement on that page sighting “With industry rationalisation and integration five multinational agribusiness companies (Cargill, ADM, Bunge, Louis Dreyfus and Conagra) now account for around 80 per cent of the global grain market”.

The need for Australian grain growers to have access to countervailing export grain marketing systems is as great now, if not greater, now than ever.

Changes in grain marketing around Australia is having a significant negative impact on the ability of growers to capture economies of scale and have those benefits flow through to improved farm gate returns.

It has been reported the decision by the Victorian operator to close its rail freight business would mean an additional 60 million kilometres of trucking on the roads to move that states grain harvest. In the WA context it has been estimated<sup>2</sup> that in an 11 million tonne season 6,285,000 tonne would be moved by rail involving 1,881 million kilometre tonnes. Using a simple transfer of each a 50 tonne rail wagon traveling 300 kilometres to port to a 50 tonne truck undertaking the tasks the road system would need to handle an additional 254,100 truck movements through urban and built-up areas.

Until recent times the WA grains industry had been able to secure long-term favourable rail haulage contracts. The now fragmented nature of the market place has lead to the prospect of the WA grain rail system also having to close or be severely curtailed.

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<sup>2</sup> GCA - Transport Infrastructure Issues Paper Two: Commercial Aspects for the Australian Grains Industry

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## 2.5 Recent Domestic and International Changes in Grain Marketing (cont)

Market fragmentation has closed off most pre-harvest management options for both marketing and logistics. The inability to enter pre-harvest and long-term service contracts severely limits investment in new and replacement assets. Lack of certainty and the forced reliance on the spot market or on post-harvest season by season agreements is already taking support industries such as transport into an asset run-down phase. For grain growing to be sustainable it needs to be supported by efficient and equally sustainable industries supplying farm inputs year round and shifting the harvest over the short harvest period.

## 3.2 GLA Decisions

The market place does not always perform as economists predict or economic theory would have people believe. Deregulation of the Western Australian dairy industry is an example of theory and practice being quite different.

The Issues Paper has no direct reference to economic gains achieved by the MEL holder through differential pricing, a foundation stone of orderly marketing.

The Issues Paper sights various reports that promote the theory that the export grain market supply chain is comprised of a series of stand alone modules, the full functionality and maximum value of which can be delivered in isolation. Drawing on the statement “With industry rationalisation and integration five multinational agribusiness companies now account for around 80 per cent of the global grain market” the Grain Marketing Act effectively establishes a system of marketing that allows the value delivered to growers from managing the whole value chain to be greater than the sum of the parts. The MEL approach need only be to manage the parts, engaging appropriate service providers in a competitive environment.

The GLA’s measured and cautious approach to market experimentation using SEL’s is welcomed by *WAFarmers* and should be continued. Whilst the GLA refers to overseeing an evolving process or adopting new and expanded strategies the reality remains that the changes are in fact furthering market deregulation from which there can be no return.

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### 3.2 GLA Decisions (cont)

Critics of grower focused marketing systems are invariably critics driven by an investor desire to profit that can only be satisfied in a “disorderly” free market in which they can present themselves as being able to manage the risks for the grower on a fee for service basis. The cost of managing the annual grain stock pile at the individual farm level is far from insignificant and the consequences far reaching as currently being experience by many wheat growers. The fall-out from growers being induced/seduced into marketing strategies in a highly uncertain market place will be significant and look set to get worse.

The cost to growers of farm based marketing and risk management systems would be significant if current arrangements were dismantled. A MEL holder role is to “smooth” marketing and risk management costs and outcomes across all grain in a particular pool. This is currently done with minimal administration fees. However in an open market the cost of retaining professionals to advise on price risk is upwards of \$2.00 per tonne on top of basic retainer fees. Grain growers would also incur higher individual transaction costs with little scope to negotiate volume discounts.

**In response to Issues 1- 2  
WAFarmers are of the view:**

**Issue 1**

Does the GLA assessment criteria adequately reflect the purpose of the Act, namely to maximise the benefit of market competition?

1. Yes
2. The GLA issues Special Export Licences and invites applicants to demonstrate what is “special” about their market over the Main Export Licensee, to warrant consideration.
3. Dealing with requests for the issue of an SEL necessarily involves matters of judgement and the assessment criterion reflects that to be the case.

**Issue 2**

Are the recent modifications to GLA policy, including the introduction of early season and multi-year licenses, likely to encourage SEL holders to make investments required in infrastructure in the State to cater for niche and emerging specialist markets?

1. SEL’s are only required for the export of prescribed grain in bulk.
2. Niche markets are more likely to be serviced by container deliveries with infrastructure investment decisions in that sector not subject to any marketing licensing requirement.
3. Private infrastructure investment in grain handling systems is usually a precursor to greater market dominance and control by buyers who have their own storage facilities.
4. Investment in infrastructure in terms of cost/benefit to the grower in the case of bulk grains is debatable with growers having already funded extensive co-operatively owned quality infrastructure assets
5. The ability of SEL holders to invest in infrastructure will be determined by their required return on capital rather than the GLA licensing regime.
6. Growers are in no position to sacrifice price to the fund new infrastructure or fund higher existing infrastructure costs if throughput is lost.
7. There have been no market signals to growers of “emerging specialist markets” that need to be handled through new bulk grain pathways.
8. *WAFarmers* has always been open to assisting existing and new industry participants with grain flow planning within the GLA framework.
9. Production risk remains a key deterrent to investment in infrastructure not withstanding availability of multi-year licenses.

**In response to Issue 3  
WAFarmers are of the view:**

**Issue 3**

Interpretation of the Guidelines and application of discretionary powers can impact on the transparency of GLA decisions. Would amendment of the Guidelines and/or Act clarify the GLA assessment process?

1. *WAFarmers* supports the Minister's 2005 determination that the Guidelines were adequate and has no reason to believe current circumstances are any different.
2. The National Competition Council has also signed-off on the Grain Marketing Act being Competition Policy Agreement compliant.
3. Licence applications can only be processed on a judgemental basis as market conditions and circumstances are not static.
4. The GLA has a laid down a clear process.
5. It is understood applicants are afforded the opportunity to make detailed representations to the GLA.

### 3.3 Impact of the GLA

WAFarmers accepts the existence of the GLA framework as the outcome of National Competition Policy.

Whilst making specific and detailed reference to matters contained in the NCC *Assessment of governments' progress in implementing the National Competition Policy and related reforms: 2004*, the ERA Issues Paper makes no direct comment on the importance of the following uncomplicated and very significant statement in the National Competition Council's 2005 report:

**“The Council has therefore decided that Western Australia has satisfactorily met its CPA clause 5 obligations in relation to the Grain Marketing Act.”**

In that process the current GLA framework was found to have satisfied the Competition Policy Agreement and public interests tests which WAFarmers believes continues to be the case.

Grain marketing is not a precise science. As set out in NCC Occasional Series report prepared by ACIL Tasman for the NCC's submission to the Productivity Commission Review of National Competition Policy Reforms, it is about processing information and making decisions in a very fluid and fast moving international market place. It is virtually impossible to forensically review events months later when the decision under scrutiny was subject to many and varied conditions not all of which are discoverable or measurable post the event. ACIL Tasman disputed a claim by GPPL that as the then single desk marketer GPPL was able to lift the price of export barley to China and then sell aggressively into that higher priced market. ACIL claimed the market was under the influence of other factors. The same tenet of ACIL Tasman's view on the GPPL claim could be applied to the following GLA comment lifted from page 18 of the Issues Paper.

*“With the introduction of SEL's there was an increase in cash prices for both feed barely and canola, and higher pool returns for prescribed grain. The GLA has noted that the granting of SEL's in WA appears to have facilitated grain growers receiving higher prices than would otherwise have been the case.”*

Notwithstanding the cautious and measured wording of the above quote, adopting the ACIL approach it is likely factors other than licenses being issued that gave rise to higher pool returns. A question also arises with regard to the basis on which it was concluded *“granting of SEL's in WA appears to have facilitated grain growers receiving higher prices than would otherwise have been the case”*? What was the other case and how was it calculated.

### 3.3 Impact of the GLA (cont)

If there has been one issue on which there has been general agreement between anti and pro market deregulators it is the question of arriving at a significant absolute dollar value in support of their respective marketing ideology. In the main most economic studies have concluded single seller/singled desk or orderly marketing systems have delivered modest dollar gains for the grain grower. Depending on the economist's view point, and in the case of some studies who commissioned the work, issues are then debated around the value and cost of having a managed market compared with one that was totally open.

As these two market structures, i.e. managed and totally open, can't co-exist there can be no resolution to this imponderable.

Grain growers have confidence in orderly marketing outcomes. They have supported domestic market deregulation and as such the export marketing arrangements have minimal if any impact on domestic consumers. Significant public benefit is derived from the security and grower confidence that flows from the current prescribed grain arrangements. Regional employment and economic activity is enhanced with rural towns, businesses and families all benefiting.

WAFarmers commends the GLA initiative in exploring the potential for mathematical analysis of the WA prescribed grain market under a GLA managed regime. However for reasons not similar to challenges from the anti market regulation proponents over orderly marketing economic modelling, the modelling commissioned by the GLA will no doubt also be challenged.

In 2005 the Bird Cameron *Review of the Benefits and Costs of the Operations of the Grain Marketing Act 2002 and the Grain Licensing Authority* concluded that the GLA framework as it was applied to the 2003/04 season was positive to growers to the extent \$2.9 million. However the report's findings were heavily qualified.

### 3.3 Impact of the GLA (cont)

The following comment on capturing data comes from *Advance Trading 2006 Grain Marketing in Western Australia*:

#### 2.6 Limited information to assess single desk premiums

As seen in 2.5, arguments for single desk marketing maintain that overall prices are on average higher by allowing a single marketing entity to control all grain exports to exert market power, capture economies of scale, maximise organisational efficiencies and eliminating weak sellers.

In an ideal world, the prices achieved by the single desk marketer would be compared against prices achieved by non-single desk sellers in order to determine which system achieved the higher prices, assess pool performance against the average of the average market price achieved by the non-single desk sellers and compare the different costs structures of each system to assess the price performance the single desk marketer against the non-single desk system.

However limited market transparency and the lack of indisputable evidence to either support or repudiate the benefits of single desk marketing complicates GLA's responsibilities in administering the licensing system.

Single desk managers, including GPPL, are extremely sensitive about making detailed sales records available for analysis. Reasons for this apprehension revolve around the confidentiality and sensitivity of the data being available to potential competitors.

Another concern is the availability of suitable comparative benchmarks to assess price performance. Vagaries of international grain markets due to factors such as the infrequency of sales, quality differences as well as ocean freight rates and exchange rates all add to these difficulties.

Equally opponents of single desk marketing arrangements have also found it difficult to substantiate claims that a competitive market would be able to achieve higher prices than through a single desk marketer.

The *Advance Trading 2006 Grain Marketing in Western Australia* paper went on to comment on economic modelling in the following terms:

#### 4.4 Econometric Modelling of Single Desk Premiums

Empirical analysis through econometric modelling of single desk premiums varies considerably as seen in Table 2. The results vary from 'small and uncertain' premiums as found by CIE in 2002 in relation to SA barley single desk exports in a report that went to the SA Review Panel. Whereas other reports have concluded that significant premiums are achieved, as did Econtech in 2004 who concluded that AWBI achieved an average premium of \$13 per tonne for single desk wheat exports.

Reasons for the significant variations are likely to include access to suitable data to conduct econometric modelling as raised in section 2.6 as well as differences in modelling approach. This view was echoed by Round, Kowalick and Schulz in their 2003 'Review of Barley Marketing Act (SA)'

*'econometric modelling of this kind is part art, part science, and it is necessarily an over simplification of the real world such that there can never be one correct model, and, in the absence of an appropriate counterfactual, the results can at best be taken as offering an imprecise estimate of what has happened in the past'*

Impartiality of some of the reports is also of concern in some cases where the body commissioning the report may be the major beneficiary of the reports findings.

### 3.3 Impact of the GLA (cont)

With regard to economic modelling of the GLA framework Bruce Layman, Assistant Director Economic Policy Division Department of Treasury and Finance in his paper <sup>3</sup> stated:

#### Background

- Wilkins and D'Antuono (WD) undertook an analysis of the impact of partial deregulation in the Western Australian Grain export prices, via the issuing of special export licences for prescribed grains by the Grain Licensing Authority (GLA), by examining feed and malting barley prices for grain delivered to Fremantle relative to prices for grains delivered to other ports around Australia in regulated markets.
- This paper attempts to verify the WD results using specific time series statistical techniques. The data used are supplied by WD, and are identical to the data used in their study.
- The premiums (the gain in the Fremantle price relative to gains in other ports) associated with the issuing of special licences after 1 August 2003 from WD are shown in Table 1.
  - WD note (p 5) that there could be other factors causing any price premium for Western Australian grain other than partial deregulation.
  - This remains a factor in this paper, as the analysis can only say whether relative prices have changed, not what caused that change.

Of note is reference to other factors possibly coming into play with analysis showing prices have changed but not what caused the change.

It would concern *WAFarmers* if an argument was advanced that SEL's should be more readily available based on the Bird Cameron; Wilkins and D'Antuono<sup>4</sup>, and Bruce Layman papers.

*WAFarmers* has decided against commissioning further economic studies at this time. It should be possible for the ERA to conclude that the current GLA framework is delivering benefits to both the Western Australia rural and broader economy based on existing studies that orderly export marketing systems deliver net positive outcomes for all key stakeholders.

*WAFarmers* are also strong proponents of approaching the grains industry from a "triple bottom line" perspective, ensuring appropriate and balanced outcomes are delivered across the three dimensions of the environment, social and cultural, and economic considerations. Recognising the value of these important social and environmental gains adds further weight to the justification of maintaining the current GLA framework.

<sup>3</sup> *The Price Impact of Partial Deregulation in the Western Australian Grain Export Market*

<sup>4</sup> *Analysis on the impact of special export licences on prescribed grain cash prices in Western Australia*

**In response to Issues 4 - 5  
WAFarmers are of the view:**

**Issue 4**

What are the reasons for actual SEL export volumes being significantly less than the volumes granted by the GLA?

In the view of *WAFarmers* holders of SEL's who fail to fully utilise their license:

1. are likely to be market speculators;
2. do not have access to new and/or niche overseas customers;
3. were overly optimistic about their ability to close out negotiations;
4. apply for licenses for the same market as other licence holders;
5. are not prepared to take long positions (i.e. buy from grower and "go long");
6. are not prepared to be exposed to grower delivery risk;
7. are only interested in stock piled grain in a buyer's market; and
8. in some cases are possibly taking a strategic position to argue later that their marketing efforts were frustrated by the GLA framework and that as such the market should be deregulated.

**Issue 5**

What issues does the Authority need to consider in reviewing the effectiveness of the GLA?

1. Widespread grower acceptance that the GLA is not to undermine the MEL holder's orderly marketing arrangements.
2. The value the GLA can create for growers by allowing GPPL to manage the crop under a CBH Group integrated business model.
3. Critical nature of economies of scale.
4. Need for state-wide management of the crop from seeding through to the final customer delivery.
5. Need to support GPPL role as the growers' "market agent".

#### 4 Are Current Restrictions on Grain Marketing Effective?

There have been a number of studies into the benefits of single desk marketing using high quality data e.g. Booz Allen Hamilton and Boston Consulting Group reports.

In more recent times the character of a number of industry papers have been less objective and have focused on advancing the deregulation argument. The reluctance of GPPL to engage in what they no doubt view as a never ending attack on their role and integrity is understandable.

The commercial rewards for investors, traders and advisers in bringing down grower focused marketing arrangements are significant. The claims advanced in support of market liberalisation can not be proved or disproved. In partially deregulated markets those seeking to have the market move to total deregulation modify their commercial behaviour to foster their longer-term objective. It is unlikely their behaviour is a reflection of what they would do in an unchecked environment. Any suggestion by an SEL holder that their performance in dealing with a small licensed volume can be transferred to the entire market must be challenged. The performance of participants in partially deregulated markets invariably distorted by “cherry picking”, a practice only available to those who have no responsibility or accountability for the market residual.

Whilst an observation has been made that there has been no notable deterioration in GPPL’s pool performance under the GLA regime an equally important issue revolves around the potential for pools to have performed better had there been fewer or no SEL’s in existence.

##### 4.1.1 Review of “single desk” studies

The Issues Paper references a study of the NSW market place from 1992 to 1998 and makes the statement “*While there may be a net benefit to domestic producers, domestic prices to consumers are relatively higher.*”. This study was reporting on a totally different market regime to what has applied in WA for a number of recent years with WA consumers able to access grain in a free domestic market.

**In response to Issue 6  
WAFarmers are of the view:**

**Issue 6**

What evidence is there of the relative benefits/costs of the GLA/GPPL framework for:

- industry price premiums arising from the exercise of market power;
  - quality control and value-adding;
  - the coordination of research and development; and
  - competing effectively in the international grain market.
1. Grower support is demonstrable evidence of benefit to the industry, based principally on:
    - a) GPPL is marketing for the grower (market agent role);
    - b) co-operative ownership and control of marketing function;
    - c) buyer of last resort facility;
    - d) budget planning security through Estimated Pool Returns; and
    - e) security of payment.
  2. Rural lenders give considerable weight to the framework when assessing industry lending/risk profile.
  3. Issues Paper identified that “evidence” was unlikely to exist in a definitive form that removed the need for value judgements.
  4. GLA commissioned studies placed a sizable positive dollar value on the GLA/GPPL framework in both seasons analysed.
  5. The term “market power” must be taken in the broad context, not the narrow economic theory definition.
  6. GPPL feed barley varietal segregation is a quality initiative that adds value.

**In response to Issue 6**  
**WAFarmers are of the view: (cont)**

**Issue 6 (cont)**

What evidence is there of the relative benefits/costs of the GLA/GPPL framework for:

- industry price premiums arising from the exercise of market power;
  - quality control and value-adding;
  - the coordination of research and development; and
  - competing effectively in the international grain market.
7. GPPL commitment to providing technical support to maximise position of particular barley varieties in the marketplace (e.g. long-term support given to Stirling barley to negate superiority of Canadian Harrington barley, development and release of Baudin, Gairdner and Hamelin).
  8. Development of the Shochu barley market by GPPL.
  9. Development of export market for WA canola in competition with superior Canadian canola varieties.
  10. Introduction of unlimited oil bonification premiums for canola.
  11. Development of lupins from forage crop to a cash crop.
  12. MEL holder is the only marketer of WA prescribed grains able to commit to and honour long-term supply agreements.
  13. Failure to secure a replacement long-term rail freight agreement in WA due to the prospect of market deregulation represented a grower cost that reduces their export competitiveness.

## 4.2 Grain Pools

In section 2.1 of the Issues Paper (page 6) the following statement is made:

*“As the MEL holder, the GPPL has an obligation under the Act (providing the grain complies with standards set by the GPPL) to buy all prescribed grain offered to it on terms that are consistent with other similar grain sales.”*

That wording can be interpreted differently to section 28 of the Act which states (accentuations added):

### 28. *Obligations to buy grain*

- (1) *It is a condition of the main export licences that the main export licence holder buy all prescribed grain that a person offers to sell to it unless subsection (3) allows it to decline the offer.*
- (2) ***The terms** on which the main export licence holder is obliged to buy the grain **are those on which it buys similar grain in similar circumstances** from other persons.*
- (3) *An offer may be declined if the main export licence holder has reasonable grounds for believing that the grain offered –*
  - (a) *was harvested before the most recent 1 October;*
  - or*
  - (b) *does not comply with any standard set by the main export licence holder that applies to that grain.*

The certainty provided by section 28 obligations, combined with reliable Estimated Pool Returns are two important aspects of managing risks and price volatility. In turn a level of certainty must also apply for GPPL as the MEL holder if, GPPL is to be in a position to maximise grower returns.

However the decision by GPPL to discriminate in favour of select growers to the detriment of others has been questioned. GPPL has given preference to growers based on historical deliveries. This discriminates against first-time growers and those who were unable to deliver due to crop failure or drought.

## 4.2 Grain Pools (cont)

Fixed tonnage pools are questionable on a number of counts:

- a. Tonnage limit contract pools deny growers their right to have GPPL buy all the grain they offer for sale to GPPL on the same terms that it (GPPL as MEL holder) buys similar grain in similar circumstances from other persons.
- b. Tonnage limit pools potentially transfer value away from a large number of growers in favour of a concentrated few.
- c. Tonnage limit pools discriminate against growers who do not speculate on production risk.

An important outcome of the Review needs to be:

- 1) causing there to be an independent interpretation of the section 28 obligation; and
- 2) testing the current practices of the MEL holder against that interpretation.

## In response to Issues7 WAFarmers are of the view:

### Issue 7

What are the advantages/disadvantage of the current pool/contract options?

#### **Pooling Advantages:**

1. Grower focus, with role as the growers' market agent.
2. Buyer of last resort obligation in place.
3. Permanent market presence.
4. Price discrimination techniques used for benefit of all pool participants.
5. Pooling smooths prices and costs over all pool receivals.
6. Stock blending benefits flow to growers.
7. Ability to enter medium-term services agreements.
8. Economies of scale when negotiating service contracts.
9. Matches stock quality with market demand.
10. Allows deployment of upfront pre harvest risk management strategies.
11. Full multi-grade delivery option without penalty.
12. Strong endorsement of and reliance by major rural lenders on MEL role and provision of reliable Estimated Pool Return.
13. Upward price movements flow to growers.

#### **Contract Advantages:**

1. Cash flow management.
2. Known final price.

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## 4.3 Licensing Requirements

### Quality Standards

The NACMA heartland is in eastern Australia. As such the Association has needed to modify certain aspects of its operating protocols to reflect differences between the WA market place and markets elsewhere in Australia. Quality standards are a specific example.

### Licence Applications

When introducing legislative change in 2002 the Minister stated in his second reading speech<sup>5</sup> *"The provision for special export licences is not intended to undermine the benefits of the single desk"*.

The language in the legislation was intentional. The term Special Export Licence reflected the requirement that the applicant bring something special to the GLA for consideration.

Licensing was promoted as being a way to grow the amount of export dollars available for distribution to growers by having a seller operating in different markets to the MEL holder. It was argued issuing licences would "grow the cake" so growers could get a larger slice. What has transpired has been more a case of "cherry picking" where essentially the size of the cake no different but it gets cut differently. Some growers get a bit more at the expense the others who get less.

The appearance of a premium price being delivered to grain growers as a total body is therefore illusory. The ability to "cherry pick" is the exclusive domain of the SEL holder leaving the MEL holder to deal with the remaining crop. It was been observed that there has been no discernable drop-off in the MEL holder's performance. Therefore had the MEL holder not been denied access to the "cherry picked" grain and markets its performance would have improved over what it actually delivered.

In all likelihood the cake is actually smaller with economies of scale lost and the overall cost of doing business higher - both eating into grower returns.

Applicants for an SEL must therefore be able to demonstrate they are bringing something special to the table, that they can deliver and that the end result will be a much bigger cake to cut than otherwise would have be the case.

### GLA Fees

The cost of maintaining the GLA is viewed as modest and well within reason and therefore not a material issue in the process. As a cost of doing business that is passed on to growers GLA costs are part of the GLA framework.

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<sup>5</sup> Hansard 26 September 2002

**In response to Issues 8 - 10  
WAFarmers are of the view:**

**Issue 8**

Do the current quality standards and schemes meet growers' requirements?

1. Generally – yes.

**Issue 9**

Are the current licensing requirements (including fees) efficient?

1. Yes – based on the information available.

**Issue 10**

What other issues does the Authority need to consider on reviewing the effectiveness of current restrictions on grain marketing?

1. Growers need certainty and reliability in the marketplace.
2. Markets do fail with the knock on effect to growers very significant.
3. The lead time to change production is considerably longer than the short cycle time of seasonal prices.
4. There is no reliable commodity futures market for WA barley or lupins.
5. Not all physical markets buying WA prescribed grain are priced off future markets.
6. Market information is not as readily discoverable as made out.

**5.2.1 Retain the GLA framework**

*WAFarmers* believe this to be the preferred course of action.

**5.2.2 Adopt a “light-handed” regulatory approach**

South Australian barley industry is structured differently to the Western Australian industry. In SA the provision of both infrastructure and marketing services are dominated by a publicly listed company, a feature not present in WA.

**5.2.3 Full deregulation**

Proponents of deregulation theorise what buyers would do in a free market. It is easy to “talk-the-talk” but quite a different matter when it comes to “walking-the-walk”. Similar representations were made in support of domestic market deregulation but the pre deregulation rhetoric outstripped post regulation actions.

**In response to Issues 11- 14  
WAFarmers are of the view:**

**Issue 11**

What possible amendments could enhance the effectiveness of the current GLA framework?

1. The framework as such does not require amendment
2. There is provision for guidance through Ministerial Guidelines
3. GLA can arrive at judgements on the circumstances of the time
4. GLA is constantly gathering information to assist with passing judgement
5. GLA needs to garner a greater understanding of the actual marketplace when assessing the performance of GPPL.
6. GLA needs to lessen the apparent dominance of “free market” aligned advisers.

**Issue 12**

What are interested parties' views on adopting a SA-style regime?

1. The majority of WA growers would not support adoption of a SA-style model.
2. The SA-style regime is effectively market deregulation and would lead to a loss of grower confidence in the WA industry.
3. WA industry has requirements different to SA and requires a marketing regime that reflects those needs.

**Issue 13**

What are interested parties' views on fully deregulating the export grain market?

1. The majority of WA growers would strenuously reject market deregulation.
2. Full deregulation of the export grain market would lead to a loss of grower confidence in the WA industry.
3. Full deregulation would lead to industry contraction, reduced farm investment, a market and value shift in favour of overseas interests.

**Issue 14**

What other issues does the Authority need to consider in reviewing the effectiveness of the current and potential regulatory frameworks? The issues of orderly marketing using the GLA model have been well documented.

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## WAFarmers' Position Summary

**WAFarmers** are confident that the current GLA framework is appropriate for the WA industry.

**A**ppropriate administrative changes can, and will no doubt, take place under the existing GLA framework if and when needed. Legislative change is therefore not necessary.

**T**he GLA role is 100% bulk export focused and independent of the MEL holder. The framework is compliant with National Competition Policy and satisfies in the triple bottom line public interest test.

**T**he domestic market can readily access grain from growers or re-sellers. WA consumers receive the benefit of open market access, reliable supply and access to quality grains in a marketplace where supply generally outstrips demand many times over.

**G**rowers and market facilitators have open access to markets for containerised grains or grains that have been processed locally for exporting as a processed product.

**T**he industry has enjoyed an unusually extended period of strong international prices. Those conditions have given rise to a range of options being presented to growers. It is highly questionable if those same options would be maintained in a buyers' market.

**W**A grains production is predicted to increase significantly in the 2008/09 season, suggesting abundant supplies and the likelihood of there being a buyers' market.

**I**t is vital a commitment to balanced triple bottom line environmental, social and economic outcomes exists to ensure WA has a sustaining grain industry with vibrant and viable farms and rural communities.

**T**he outlook for the global economy is looking "soft". The WA grains export market could easily come under pressure again, as happened during the 1997 Asian economic melt down.

**T**he GLA is structured with scope in which to move if markets shift.

**A** number of recent industry innovations have centred on providing alternative financial services and production risk tools. They have not been "closed loop" marketing arrangements co-existing with established grain marketing regimes. For example AACL refers to their product as a "Grain Co-Production" and was developed within the National Wheat Pool single desk framework. As such maintaining the GLA model should not inhibit AACL expanding its multi peril crop insurance and production risk management contract into other grains.

## **WAFarmers' Position Summary** **(cont)**

Now is not the time to be experimenting with major structural changes to marketing prescribed grains.

It is *WAFarmers'* strong recommendation that the needs and wishes of WA growers be met through the existing managed GLA framework with:

- the Grain Marketing Act to be retained;
- the Grain Licensing Authority continuing its role; and
- the Minister of Agriculture and Food continuing his oversight role.

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## ERA Paper – WAFarmers’ Response to Issues 1 – 14

### Issue 1

Does the GLA assessment criteria adequately reflect the purpose of the Act, namely to maximise the benefit of market competition?

1. Yes
2. The GLA issues Special Export Licences and invites applicants to demonstrate what is “special” about their market over the Main Export Licensee, to warrant consideration.
3. Dealing with requests for the issue of an SEL necessarily involves matters of judgement and the assessment criterion reflects that to be the case.

### Issue 2

Are the recent modifications to GLA policy, including the introduction of early season and multi-year licenses, likely to encourage SEL holders to make investments required in infrastructure in the State to cater for niche and emerging specialist markets?

1. SEL’s are only required for the export of prescribed grain in bulk.
2. Niche markets are more likely to be serviced by container deliveries with infrastructure investment decisions in that sector not subject to any marketing licensing requirement.
3. Private infrastructure investment in grain handling systems is usually a precursor to greater market dominance and control by buyers who have their own storage facilities.
4. Investment in infrastructure in terms of cost/benefit to the grower in the case of bulk grains is debatable.
5. Growers have funded extensive co-operatively owned infrastructure assets to date with the cost of any new capital expenditure needing to come from other than grower sources.
6. Production risk remains a key deterrent to investment in infrastructure notwithstanding availability of multi-year licenses.

### Issue 3

Interpretation of the Guidelines and application of discretionary powers can impact on the transparency of GLA decisions. Would amendment of the Guidelines and/or Act clarify the GLA assessment process?

1. *WAFarmers* supports the Minister's 2005 determination that the Guidelines were adequate and has no reason to believe current circumstances are any different.
2. The National Competition Council has also signed-off on the Grain Marketing Act being Competition Policy Agreement compliant.
3. Licence applications can only be processed on a judgemental basis as market conditions and circumstances are not static.
4. The GLA has a laid down a clear process.
5. It is understood applicants are afforded the opportunity to make detailed representations to the GLA.

### Issue 4

What are the reasons for actual SEL export volumes being significantly less than the volumes granted by the GLA?

In the view of *WAFarmers* holders of SEL's who fail to fully utilise their license:

1. are likely to be market speculators;
2. do not have access to new and/or niche overseas customers;
3. were overly optimistic about their ability to close out negotiations;
4. apply for licenses for the same market as other licence holders;
5. are not prepared to take long positions (i.e. buy from grower and "go long");
6. are not prepared to be exposed to grower delivery risk;
7. are only interested in stock piled grain in a buyer's market; and
8. in some cases are possibly taking a strategic position to argue later that their marketing efforts were frustrated by the GLA framework and that as such the market should be deregulated.

### **Issue 5**

What issues does the Authority need to consider in reviewing the effectiveness of the GLA?

1. Widespread grower acceptance that the GLA is not to undermine the MEL holder's orderly marketing arrangements.
2. The value the GLA can create for growers by allowing GPPL to manage the crop under a CBH Group integrated business model.
3. Critical nature of economies of scale.
4. Need for state-wide management of the crop from seeding through to the final customer delivery.
5. Need to support GPPL role as the growers' "market agent".

### Issue 6

What evidence is there of the relative benefits/costs of the GLA/GPPL framework for:

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    - e) security of payment.
  2. Rural lenders give considerable weight to the framework when assessing industry lending/risk profile.
  3. Issues Paper identified that “evidence” was unlikely to exist in a definitive form that removed the need for value judgements.
  4. GLA commissioned studies placed a sizable positive dollar value on the GLA/GPPL framework in both seasons analysed.
  5. The term “market power” must be taken in the broad context, not the narrow economic theory definition.
  6. GPPL feed barley varietal segregation is a quality initiative that adds value.
  7. GPPL commitment to providing technical support to maximise position of particular barley varieties in the marketplace (e.g. long-term support given to Stirling barley to negate superiority of Canadian Harrington barley, development and release of Baudin, Gairdner and Hamelin).
  8. Development of the Shochu barley market by GPPL.
  9. Development of export market for WA canola in competition with superior Canadian canola varieties.
  10. Introduction of unlimited oil bonification premiums for canola.
  11. Development of lupin industry from forage crop to a cash crop.
  12. MEL holder only marketer of WA prescribed grains able to commit to and honour long-term supply agreements.
  13. Failure to secure a replacement long-term rail freight agreement in WA due to the prospect of market deregulation represented a grower cost that reduces their export competitiveness.

### **Issue 7**

What are the advantages/disadvantage of the current pool/contract options?

#### **Pooling Advantages:**

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4. Price discrimination techniques used for benefit of all pool participants.
5. Pooling smooths prices and costs over all pool receivals.
6. Stock blending benefits flow to growers.
7. Ability to enter medium-term services agreements.
8. Economies of scale when negotiating service contracts.
9. Matches stock quality with market demand.
10. Allows deployment of upfront pre harvest risk management strategies.
11. Full multi-grade delivery option without penalty.
12. Strong endorsement of and reliance by major rural lenders on MEL role and provision of reliable Estimated Pool Return.
13. Upward price movements flow to growers.

#### **Contract Advantages:**

1. Cash flow.
2. Known final price.

### **Issue 8**

Do the current quality standards and schemes meet growers' requirements?

1. Generally – yes

### **Issue 9**

Are the current licensing requirements (including fees) efficient?

1. Yes - based on the information available

#### **Issue 10**

What other issues does the Authority need to consider on reviewing the effectiveness of current restrictions on grain marketing?

1. Growers need certainty and reliability in the marketplace.
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3. Full deregulation would lead to industry contraction, reduced farm investment, a market and value shift in favour of overseas interests.

**Issue 14**

What other issues does the Authority need to consider in reviewing the effectiveness of the current and potential regulatory frameworks?

1. The issues of orderly marketing using the GLA model have been well documented.

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## Appendix

A recent rural newspaper front page carried the following Winston Churchill quotation:

**The farther backward you can look,  
the farther forward you are likely to see**

It is with more than passing interest therefore, to read the following extract from

**A FINE COUNTRY TO STARVE IN**  
by GC Bolton

Wheat marketing even at the local level was a complicated business, so that even when seasons were good, no farmer could calculate precisely how much his crop would fetch. Originally all wheat was purchased by millers and export merchants. These traders entered into combinations against the wheatgrowers to keep prices down, and in retaliation many farmers supported moves beginning in 1905 to market their wheat co-operatively.

Out of this movement there developed in 1914 the Westralian Farmers' Co-operative Ltd, which competed actively with the private traders. During the First World War, when shipping became scarce and orderly marketing was essential, Western Australia, in common with every other State government, set up an official pool to control sales. Westralian Farmers and the private traders battled vigorously for sole rights to handle the entire State crop, and in 1918 Westralian Farmers was successful. This arrangement continued until 1922 when, under pressure from the private traders and their allies in the Legislative Council, the first Mitchell government abandoned compulsory pooling. Westralian Farmers and other interested parties then set up a voluntary pool scheme, which in its first year handled 84 per cent of the harvest. Gradually, however, the private traders recovered support. This was partly because some farmers believed they could do better for themselves by watching the market and selling at a moment when prices were high rather than wait for the averaged price which the Pool would pay; but mainly because, particularly in the newer districts, the farmers desperately needed ready cash and could not wait until the Pool's marketing arrangements for the season were complete. In consequence, as well as continuing to support the Pool, Westralian Farmers also re-entered the wheat marketing field as a direct competitor to the grain merchants. So by the 1929-30 season a farmer had three choices in marketing his wheat. He could sell to a private miller or merchant at the current trading price, he could sell to Westralian Farmers under the same conditions, or he could sell through the Pool and receive an averaged price which might or might not be better than what his neighbour received from one of the other buyers.

This meant that there was a considerable variation in how farmers fared during the 1929-30 marketing season. Wheat prices among private traders opened at 4s 5d a bushel, and at one point early in February 1930 reached a maximum of 4s 10½ d before beginning to slide. Those farmers who got their harvests off early and received their cheques quickly, probably did well. Most of them were probably in the Geraldton and Northern Midlands districts, where harvesting begins earliest, and where the impact of the Depression appears to have been initially less severe. Those who sold through the Wheat Pool at first appeared to do worse. One of the few men to foresee the slump in grain prices was T.H. Bath, a former Labor leader who, having retired from politics young, devoted himself zealously to the Co-operative movement. Bath returned from a visit to North America convinced that the wheat market was contracting, and although many found his views unpalatable in contrast to the boundless optimism of Collier and Mitchell, he managed to persuade his fellow-trustees of the Wheat Pool to sell early in the 1929-30 season, realizing 3s 7½d a bushel for their members. This was not so much as some of the lucky ones received by selling through private traders, but it was a good deal more than the majority were to see. Many farmers received advances from the merchants on the basis of the high prices early in the season, but having stored their wheat to catch the peak of the market, were caught short by the slump after February. By September the price was at 3s 3d, and many did not make enough even to come anywhere near redeeming their earlier advances. In this way debts of nearly half a million pounds were created, although in the early months of 1930 the implications of the situation were not fully apparent.

The Scullin federal government sought to remedy wheat marketing by reintroducing a compulsory pooling system on a national level. It might have been expected that this would have commended itself to many farmers. A government subsidy stabilizing the price of wheat at a payable level would have answered the complaints of the man on the land that every other industry in Australia bar themselves had its hand in the public purse. Matters turned out less simply. In April 1930 the Scullin government convened a conference of primary producers' representatives from all States, following which legislation was prepared for federal parliament. This provided that compulsory pooling should operate for three years, during which farmers would receive a guaranteed price for their wheat. The price in the first year would be four shillings a bushel. Any shortfall in the price received on the overseas market by the Pool would be made up by a fifty-fifty subsidy from the Commonwealth and the States. This was the point at which the legislation could most validly be criticized. If the States' contributions were lumped together, the major wheat-growing States such as Western Australia and South Australia would benefit at the expense of Queensland and New South Wales; if on the other hand the contribution was levied on the amount of subsidy paid, Western Australia and South Australia would be committed to what might be a massive liability. In either case, the States thought themselves entitled to object to the Commonwealth's generosity with their money, and to urge that the federal government should finance the whole subsidy itself. Those who were concerned for the wheatgrowers did not want the scheme to founder on the barren ground of federal-state controversy, and both in the House of Representatives and Senate the measure was supported by a minority of anti-Labor members as well as by Scullin's supporters. Nevertheless, in July the measure was beaten by fifteen votes to twelve in the Senate, where the anti-Labor parties had a big majority, largely because of the

solid opposition of the six Western Australian senators. Their arguments for torpedoing the scheme were confused and contradictory, but they worked. Senator E.G. Johnston quoted figures proving that the scheme would enrich New South Wales at the expense of Western Australia, after Senator Sir George Pearce had quoted figures proving precisely the reverse. Both then announced that they would vote against the scheme. Pearce, a man usually commended for his sober common sense, went so far as to claim that the measure would lead to total collectivization of agriculture, such as Stalin was attempting with much bloodshed in Soviet Russia at that time. He must have known that this was nonsense. More credibly, he quoted the economist Douglas Copland, who objected to the measure because it would increase wages and industrial costs. This was a point which also weighed heavily with Senator Sir Hal Colebatch, who claimed that the government would have to print extra money to meet payments to the farmers under this scheme. Nowadays, in a time of recession, this might have been argued as a merit in the proposals, but at that time it was thought dangerous to increase spending power in a depression: when your car was in danger of stalling, you applied the brake. All the same it was odd that the Western Australian senators warmly advocated an alternative scheme of a straight-out bounty of sixpence a bushel on all wheat, however marketed. They seemed quite unworried that the government might have to print extra money to finance that or any other scheme of subsidy.

There was an explanation for these inconsistencies. The senators dared not object to subsidizing the wheatgrowers, but they were able to produce numerous telegrams of protest against the Scullin government's scheme from farmers in the Western Australian wheatbelt. This agitation must have sounded convincing if one did not enquire how it was that hard-up farmers had time and money to send political telegrams. In many cases it appears that the protests were inspired by the private wheat merchants, who feared loss of business if the Pool eventuated, and who were doubtless in a position to encourage the political activity of the farmers indebted to them after the 1929-30 wheat sales. Mrs Braid of Koorda remembers that her first job after leaving school was clerical work for such a campaign of protest. Other centres of activity were Gabbin, Konnongoring and Wubin-Buntine district, at each of which private wheat traders appear to have been strong. On the other hand, feeling favoured the Pool in the outer wheatgrowing districts where the farmers were too hard pressed to worry about playing politics. Well-attended meetings voted in favour of the scheme at Kondinin and Lake Grace, and in the Merredin-Yilgarn district, where times were perhaps hardest of all, the farmers tried to keep the scheme alive even after its parliamentary defeat.

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