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**PRODUCTIVITY COMMISSION**

**INQUIRY INTO WHEAT EXPORT MARKETING ARRANGEMENTS**

**DR W. CRAIK, Presiding Commissioner  
MS A. MacRAE, Commissioner**

**TRANSCRIPT OF PROCEEDINGS**

**AT PERTH ON THURSDAY, 3 DECEMBER 2009, AT 9.15. AM**

**Continued from 24/11/09 in Melbourne**

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**MS MacRAE:** I'm Angela MacRae and I'm one of the commissioners that's working on the wheat export marketing arrangements inquiry. First up, I'll apologise for the fact that we had a technical glitch. The reason for the problem is that the presiding commissioner, Wendy Craik, was unable to travel to be with us today so we were trying to get a phone line in to her and the phone line is still not operating. So the way that we will run things which is a little unusual and I hope we can make it work, but I've got a mobile phone with a speaker on there and I'm hoping that Wendy will hear you well enough and if you're making an opening statement she should hear you fine with the mobile there and I'll ask Wendy to ask her questions initially so that the phone can sit on the table and then if she can't hear me so well and I've got follow-up questions, then they'll follow. So I hope that all works out okay.

As you're probably aware, the inquiry started with a reference from the assistant treasurer looking at the wheat export marketing arrangements. It frames the terms of reference in terms of the transition to the deregulated environment and we're really being asked to look at how that transition is going and whether or not improvements could be made to that system. We have already talked to a range of organisations and individuals with an interest in these issues and submissions have been coming to the inquiry following the release of our issues paper which you probably will have seen - and if not you can certainly get a copy today or from our web site.

We are very grateful for those organisations and individuals that have been able to make their submissions already. While we had a due date of 13 November for those, we are actually happy to continue to receive submissions right up until the draft report comes out. But obviously the earlier we get those submissions, the easier it is for us to take on board the information that's in them. So I would encourage anyone who might be wanting to make a submission to do that as early as possible.

The purpose of the hearings today is to provide an opportunity for interested parties to discuss their submissions and their views and for us to have some questions and a discussion around those things and to have those views put on the public record. This is the second day of our hearings. We have had hearings already in Melbourne. Following the hearings today we'll have another day in Perth tomorrow and then we will also be travelling to Brisbane, Adelaide and Sydney for hearings there as well. All of the information we've receive through submissions, hearings and forums that we've been holding will be working towards completing a draft report and we expect that to come out in March next year. There will be another opportunity for public comment at that stage, both through submissions and another round of hearings and forums. We do invite participation at that further round of hearings and it is quite common for people who have appeared in this first round to want to appear again at the next stage.

While we like to conduct the hearing in a reasonably informal manner, I do

remind you that there will be a full transcript being taken and for this reason comments can't be taken from the floor through the day, but I will invite any comments from the floor at the end of proceedings today. Participants are not required to take an oath, but we do ask under the requirements of the Productivity Commission Act that you be truthful in your remarks. You are welcome to comment and in fact we really welcome you commenting on issues that are raised in other people's submissions, if you would also like to do that.

The transcript will be made available to participants following today and they will also be available from the commission's web site. Copies can also be purchased using an order form available from the staff that are here today. Submissions, as I said, are also available from the web site. For any media representatives attending today, there are some general rules that apply and please see one of our staff here. They are the people in the front row here. There's a handout that explains those rules. Apologies for the lateish start, but I'd now like to welcome our first participants for today, the Pastoralists and Graziers Association of WA. If you could please state your name and the organisation you're representing to start with and then if you could give us some opening comments and perhaps time for discussion. Thank you.

**MR BRADLEY (PGA):** Thank you, commissioner. Leon Bradley, I am a former past chairman of the Western Grain Growers which is a subcommittee of the Pastoralists and Graziers Association.

**MR MUMBY (PGA):** Sheldon Mumby, I'm the policy director for the Pastoralists and Graziers Association.

**MR BRADLEY (PGA):** By way of a bit of background, the industry went through this deregulation legislation - I forget the timing now, that's how rusty I'm getting. But because the old system had - besides a lot of problems with integrity - there was practical issues such as the value that Western Australians would get - Western Australian grain growers in particular were getting out of the compulsory national pool and we actually commissioned a report ourselves which established that West Australian growers were getting a very poor deal and in that we found that it was costing us conservatively \$11 a tonne which is very significant in terms of farm profitability. But we actually thought at the time it was more like 20 and immediately upon licences being issued in about August last year, the \$20 penalty disappeared. So I would say the first effect of the competition in the wheat industry has been to remove the massive distortion between the east coast and the west coast and improve the basis upon which West Australian farmers market their wheat. So that has been a very significant advantage for us.

We also think that the measures taken to introduce competition to the wheat industry have been validated when you take into consideration the context that it's

happened. We have had the big test of the global financial crisis and farmers were able to trade in a very liquid market at good values. The best cash trading opportunities I would say they've ever had at a time of liquidity crisis in global markets and that's continuing today. Up to today, you would surely be aware that at the moment there's about 188 days of stocks in the world wheat market and I think production levels for the last two years have been about 681 million tonnes and 672 million tonnes and they're increases over the type of average 24 million tonnes of worldwide production and 48 million tonnes combined making 72 million tonnes in basically 18 months, two years. So we're now trading, as far as wheat goes, in a massive oversupply situation and yet Australian wheat is still being sold on a very solid basis compared to cash wheat prices in America even today.

I would also point out that Australian wheat exports last year exceeded 14.8 million tonnes. We reduced our stocks to fairly low levels while all our competing suppliers to world markets are actually having major stock builds. So I would say that it's worked very well from that perspective as well. In addition I would like to add that we've also increased our market share in Asia, the Middle East and North Africa. I don't know if a measure that's been taken by government, I don't know what criteria you would have to judge it by, but by those criteria, it's been an outstanding success in our opinion.

As for the future, as you mentioned in your opening address, this measure we see or have seen as a transition stage and I suppose the big issues arising from it for the future is the role of the Wheat Export Authority and how much further it should go down the road as a prudential agency. We are very concerned that (a) it's not practical we believe for an authority such as the Wheat Export Authority to give with any degree of certainty a tick to the financial circumstances of any of these companies in the wheat market and, to be a bit cynical, we would say that with seven years and about \$30 million of funds they couldn't analyse something that was right under their noses. So I don't know how they're going to deal with 24 companies and give people the sense of security they need. I think the principle that needs to apply is that the farmers have to be aware of the risk they're taking because inevitably some companies will fail and I don't think there is anything the Wheat Export Authority, even with as much due diligence as they can possibly muster, can safeguard us from.

We are not sure that they should be going down that direction as much as they have done but, at the same time, we believe they have done an outstanding job up to date in establish all these achievements that have occurred in the last 18 months and we commend them for that. With those few opening thoughts, I might move over to Sheldon if he wants to elaborate.

**MR MUMBY (PGA):** Thank you. Thank you, Madam Chair. The PGA's perspective as, Mr Bradley just elaborated, was that we saw the introduction of Wheat Export Australia's transitional measure to assist the industry during this

changed from a regulated environment to a deregulated environment. As such, being as a transitional situation, we feel that there would need to be a sunset of the role of WEA. We would hope that the sunset should occur at the time of the expiry of the current accreditations that are in place at this moment which would be 2012. As a result, any new accreditations that are going on should not be extended beyond 2012 and should be incorporated into that.

One of the other issues we have is with the port access test and we feel that this should remain in place until 2012 with the possibility of it being carried on through a body such as the ACCC in the case that the bulk handlers have not complied with their obligations under their undertakings, so we have a period to see if the bulk handlers are going to be able to comply with the undertakings and that would give us the competition coming in and that there's no restrictions on port access, those type of things.

Our other recommendations are that the act itself should be amended to incorporate the sunset of WEA. As well, section 86A, which is the operation of certain state and territory laws within the act, should be retained and possibly reinforced as inherent in this particular section of the act it prohibits state or territories from enacting legislation which may regulate the transport or marketing of grain. We feel that it would not be in the best interests of growers if regulation came in, either restricting the movement of grain from upstream into port access and somehow restricting or putting any restrictions on growers' ability to market their grain products.

The other thing we see, because the industry is currently in transition and obviously we've gone through the first year of this transition, if anything we're going to have another year that's really going to test the industry and to work out any of the kinks that have occurred, but what we see is the industry will be moving towards a self-regulated model. When I'm referring to industry, I'm referring to everyone involved in the industry from the exporters, the bulk handlers and the growers, so we're moving towards a self-regulated model and as such, we would see a limited role of government in other enforcing, national representation bodies, those kind of things. With issues such as classifications and all that, we see the industry moving towards taking care of that and dealing with those issues based on their contracts. We have already seen codes of conduct that have begun with Grain Trade Australia, as well as clarifications of contractual obligations between growers and buyers and exporters and buyers. So all in all, we see the whole industry shifting to this self-regulatory aspect.

The other issue we do have, it's a big one, is access to information. It's a key thing. If the industry is working towards a self-regulated model, one of the keys from anyone involved in it from the grower to the trader is having knowledge of what's available to establish a position. What we're looking for is the ability of

possibly amending the act to incorporate information from both upstream as well as at portside. Overall, that's pretty well what our recommendations are.

**MS MacRAE:** Thank you. I would say your submission has been very helpful and very comprehensive, so it's been very useful to us and it's good that we have an opportunity to talk today. Given our limitations, which hopefully will be over for our next participant, the good news is we think the line is now working. But we will persist with this until we've finished our session here. I might ask Wendy if you've got some questions to start with and then we'll come back to me.

**DR CRAIK:** Thanks very much, Angela, and thanks, Leon and Sheldon. I'm sorry I can't be there. I agree with Angela's comments about your submission, it's very helpful. I was interested, Leon, in your comment that you think you've gained at least a \$20 a tonne premium or \$20 a tonne extra out of the deregulated market compared with the single desk days. In the submission, you said 35 to 40 dollars a tonne, so is it as high as 35 to 40 dollars a tonne, do you believe?

**MR BRADLEY (PGA):** At times it is. I'd have to ask Sheldon, who pulled that one on me, where he got the number from.

**MR MUMBY (PGA):** If I can be very clear, I actually got that number from Minister Burke; that's in Hansard, so that's where the numbers come from.

**DR CRAIK:** So you're comparing the graphs on the WA web site and the Chicago Board of Trade.

**MR MUMBY (PGA):** That's correct, yes.

**MR BRADLEY (PGA):** Wendy, Richard Koch has done a lot of work on this and his ProFarmer analysis regularly tracks the basis and it's quite a stunning chart actually. From the day that the applicants actually got licensed as to export, the basis in Western Australia improved dramatically.

**DR CRAIK:** Okay.

**MR BRADLEY (PGA):** He'd be happy to provide that basis chart to you.

**DR CRAIK:** Okay. That would be a useful piece of information for us. I was interested in your comments on port access and as I understand it, clearly you want the ACCC to monitor the undertakings and the impact of the undertakings on the bulk handling companies. My question is to you, if the ACCC happened to find that the bulk handling companies at the end of the two-year period of the access undertakings - that everything had worked very well, what would your view be about the future regulation of the bulk handling companies? Do you think the access

undertakings should continue or should it just revert to the Trade Practices Act? Do you have a view about that?

**MR BRADLEY (PGA):** Our view is that the bulk handlers, and I suppose I our case in Western Australia, they have operated in a regulated environment, serving one customer on a pretty comfortable cost-plus basis for a long time and we're now in a competitive situation where they have to earn their place in the world through performance and it's quite possible that new entrants will come in. The way they currently operate won't be sustainable in the long term.

So in the short term, there's a tremendous temptation for CBH, for example, which is handicapped by having a board that doesn't have a strong focus at the moment on business - they're more concerned with philosophy - and the temptation is going to be for the management to take short cuts and force the costs of adjustment back on to the growers, rather than attending to their business where they have to change their business model and they have to move away from a cost-plus operation. They have to move away from network pricing. They have to write off a lot of obsolete capital investment and they have to find capital to develop high throughput sites which is the only way they can compete. It's just natural that they will want to avoid having to take on all those hard arguments, especially when they're handicapped with a board that doesn't appreciate that it's necessary.

So it's mostly a legacy thing, that there's going to have to be incentives other than what can be out of the market because it's too easy for them to shift costs back on to everybody else in the industry. That's why we're particularly concerned that the undertakings that have been imposed on them by the ACCC continue to be applied for as long as necessary, perhaps for long enough to allow competitors to actually become established. If the market becomes so dissatisfied with their performance that they see that - what would be duplication of investment expenditure - they see it as absolutely necessary for them to maximise their value out of wheat crop.

The short answer is, yes, this is going to be an ongoing issue, particularly in Western Australia, where unfortunately the interests of what the boards see, because of their disposition towards their - I suppose they're basically hostile to commerce, and many of them have actually said so. One of their directors upon election said he was going to get the management to see that they were properly inculcated with the cooperative philosophy, for example. It makes it very difficult for the management to run this company on a commercial basis and there just has to be some measure in there to give CBH the incentive and other market participants a signal that this industry is going to operate as a business from now on and in the future. I don't think there's any way to do it but with outside intervention.

**DR CRAIK:** Is there any sign, Leon, of new entrants in WA?



**MR BRADLEY (PGA):** Informally, I wouldn't like to give their game away but yes, it's being explored vigorously by independent smaller operators, including growers, plus multinationals developing options as well. We've spoken to all of them and they all see it as a viable option in the future.

**MR MUMBY (PGA):** If I could just add to that, we are saying in this state at the moment considerable development of new port facilities, primarily to service either the container trade or the iron ore trade. However, a lot of these port facilities, the new private ports at James Point which is near Kwinana as well as Oakajee, have expressed interest in looking at doing bulk handling of grain.

**DR CRAIK:** Okay.

**MR MUMBY (PGA):** So all those developments, especially Oakajee, which are currently under development, when that happens you will see the opportunity for competition to come in on portside.

**DR CRAIK:** Okay, thanks. Another aspect of your submission was you were keen to see section 86A of the Wheat Export Marketing Act retained because of potential concern about states imposing or charging a levy on transport, storage and marketing of grain. Is that a very real threat in WA?

**MR MUMBY (PGA):** That is a very real threat, actually. As we stated in the submission, in 2004 the WA government established the Grain Infrastructure Group or GIG, which came up with its recommendations.

**DR CRAIK:** Yes.

**MR MUMBY (PGA):** One of the key components was that the - because the grain rail network which comprises a narrow gauge rail system is uneconomical and unviable, in order to keep it there would have to be some form of regulation of grain onto rail. There was also a proposal put forward for contribution to come from the Commonwealth government, from the state government and from industry, which at that time was CBH, which was basically growers, would be placed with a levy on their grain to help fund this.

Now, the Commonwealth government conducted a report and review of the GIG process in 2009 and came up with a recommendation that investments in the rail network, the narrow gauge rail network, would never provide a decent rate of return. Basically you could gold plate the thing but you're not going to get any value out of it. So there has been another study done on the state level which has recommended that - has reviewed the entire network. Some of the components coming out of this have been that there should possibly be some form of a road toll or tax placed on

grain transporters to force them to utilise the rail system and that there could possibly be regulation as far as restrictions on which routes by main roads which could handle grain freight on there. The only thing stopping them from imposing that is section 86A.

**DR CRAIK:** Okay.

**MR BRADLEY (PGA):** In fact, Wendy, section 86A is there because we were aware that the previous minister in WA was actually seriously contemplating or doing that at that time. That section has been included in a last-minute deal between the Liberal representatives from WA and the minister, Tony Burke.

**DR CRAIK:** Okay, thanks. This latest report that I think Sheldon referred to, the one that begets the possibility of some kind of toll on grain traders to force them to use - or road toll to force them to use rail or prohibition on using roads. Would you be able to give us the reference to that report?

**MR MUMBY (PGA):** I would be happy to, once the report is released to us.

**DR CRAIK:** It's not released? Okay.

**MR MUMBY (PGA):** Yes. No, the - as far as the previous recommendations, the GIG report, I'm more happy to supply you a copy of that. The SAHA-KPMG report - - -

**DR CRAIK:** That's the SAHA-KPMG one? Yes, I've read that. I had a look at that one and it's close to the GIG one. I was just interested in this latest thing that I hadn't heard about. Yes, quite useful thing, anyway.

**MR MUMBY (PGA):** Yes. No look, the latest one has - there has been a draft report that has come out. It has just been kept internally within the committee but the final report has been done. It has been sent to the minister. But I would be more than happy to ask the minister if he would forward it to you. That's not a problem.

**DR CRAIK:** That would be great, actually. That would be really useful. Just one more question. In your submissions basically you're saying - you seem to say that:

In Western Australia all grain for export is allocated to Grain Express, so Western Australian growers have no option but to utilise Grain Express in marketing their wheat.

Does that mean that a grower cannot take wheat by truck to any port in WA to export through CBH facility? Do I understand that correctly? Is that what you're saying?

**MR BRADLEY (PGA):** I think what is meant by that if it's an up-country site, CBH has sole responsibility for moving it.

**DR CRAIK:** Okay.

**MR BRADLEY (PGA):** So there is no competition in the up-country freight once it's in a CBH site.

**DR CRAIK:** Once it's at a CBH site, okay.

**MR BRADLEY (PGA):** Yes.

**DR CRAIK:** Yes, I understand that. Okay, that's all the questions that I have, Leon and Sheldon. Thanks very much. So over to you, Angela.

**MS MacRAE:** Look, we probably haven't got too much more time. I was just interested in your views about what should happen in relation to Grain Express, just following on again, because the West Australian Farmers Federation submission to us says Grain Express is a great thing and it has been really good for farmers and your view seems to be the opposite of that. I was just wondering if you are able to reconcile those views or whether there is a reason for that difference, a feeling about how Grain Express doesn't help the grower.

**MR BRADLEY (PGA):** The reason is that CBH didn't write ours.

**MS MacRAE:** Okay, all right. The reason for the question, I suppose, is to what extent you think that is a widely held grower view that the Grain Express has actually got in the way of competition and isn't giving you enough access to alternatives?

**MR BRADLEY (PGA):** Well, the practical effect of it is that if the trade don't have control of the freight movements, they're locked out of achieving other efficiencies and making investments in the system. That's the problem with it.

**MR MUMBY (PGA):** There has also been talk to of - because Grain Express, which is a bundled service and utilises, you know, the receival bins, the rail and the road, one of the recommendations that came out of not only the GIG report but obviously this latest report that has happened is - which, by the way, I must state that the current report that has been done for the minister has been done by the same authors of the GIG report and with no reference to the SAHA-KPMG report. As a result of that there is talk of - in certain sections where lines are going to obviously have to close that some form of a subsidy would have to go, which would be paid to the transport operator to ensure that we are still moving the maximum amount by rail. Now, that is all controlled by Grain Express.

**MS MacRAE:** Right, okay. Then finally, can I just ask some questions about - one of the more contentious areas in relation to the submissions we have received is what information should be provided. I understood that your - I guess your prime concern seemed to be equal access to the information that was there, so that is one issue. Then the second issue is what information should be made available. Can I just understand - if I understood you correctly you felt that having details about stack values upstream was an important factor. I guess one of the questions is how you would gather that information and what use would you see it put to. Is it because primarily you're looking to try and be able to trade better on a day-to-day position? So is it a short-term kind of quick information turnaround you're looking at or are you more concerned about sort of general trends in the industry and how, you know, crop shaping might over time and the more longer-term view on information? So sorry, there's quite a lot of questions sort of wrapped up in that but - - -

**MR BRADLEY (PGA):** Well, I think there we're talking about the short term from our own trading opportunities and for outsiders. For example, when someone wants to buy grain out of a CBH stack but it is received at a certain level - this is an up-country packer I'm thinking of that comes to mind - when they get the grain they have to retest it to find out what specification it is. That makes it pretty hard to trade. Whereas CBH will know exactly what the specs are in that stack.

**MS MacRAE:** Right.

**MR BRADLEY (PGA):** That's just one particular issue.

**MS MacRAE:** Yes.

**MR BRADLEY (PGA):** From a grower's point of view we're at a information disadvantage because CBH actually know what type of stocks they've got and where they are and their volume, whereas a grower is selling his grain blind. On the other hand, the trade have the resources and the people to closely analyse this and they have a pretty good idea themselves about what the true stock situation is, and we don't.

**MS MacRAE:** I guess getting that sort of timely information would seem to be difficult. Just physically getting that would seem to me to be a difficult thing to do. Then there's issues around what we would do with on-farm stocks which are growing and getting - if you're looking for an aggregate picture and how that might help you and you're only able to measure part of the picture is that going to help you or not? So those questions, I guess, are part of the problems that we have been running up against, that even if we felt it was a good idea, could you do it? If you're really looking at this, the very short term sort of trading day to day, is it ever going to be practical to collect that sort of information?

**MR MUMBY (PGA):** I guess what we're looking at is, first of all, we're only talking commercial levels for commercial storage. Now, that information is already available. CBH has that information, they just don't want to share it. They will share the information under regulation or because of what's at portside, but what we're looking at is to basically have the same access that we can get for information on portside that is available upstream. If this information is not valuable to growers then why doesn't CBH release it? I would say if another commercial upstream operator came in, yes, they would be required as well to basically publish that aggregate information. As far as the timeliness of it, look, that's - it's updated regularly. The problem we have is under the current system the information coming from ABS and ABARE is hopelessly out of date.

**MS MacRAE:** Yes, which is really the question about - which you've answered for me about whether it's the short term sort of issues that you're - - -

**MR BRADLEY (PGA):** If I can give you a practical example. Say you've got a multigrade contract and it's to your advantage to fill it with feed wheat, well, you might like to know whether there's feed wheat in your zone, or else you face all the costs of getting it in another zone and suffer the penalties for doing that. At the same time it gives CBH an advantage, they know there's feed wheat in their zone. So if you buy feed wheat in another zone they can do a paper swap, make money at your expense, and you're out of pocket, when all you needed to know - if the feed wheat was available in that particular zone. That's the type of issue. So we're looking for information that - just a simple one but we're looking for aggregated information, not detailed, about - - -

**MS MacRAE:** In that instance you'd need it by type, for example.

**MR BRADLEY (PGA):** Yes, by type is really all we need to know.

**MS MacRAE:** Yes.

**MR BRADLEY (PGA):** Yes. Type and volume.

**MR MUMBY (PGA):** The other part of it as well is that if the information is available then there is less likely the temptation for the trading arms of the bulk handlers to utilise that information by trying to circumvent the ring fencing provisions that have been put in.

**MS MacRAE:** Okay. Well, we're probably running well past time but it has been - there's lots of material here and I thank you again. Was there anything further you wanted to say, Wendy? She probably can't hear me. Or anyone - do either of you want to say anything in closing?

**MR BRADLEY (PGA):** Only that I've got these production figures here. I don't know whether they would be of any use to you.

**MS MacRAE:** That would be terrific. We'll take those. That would be great.

**MR BRADLEY (PGA):** Stock builds and so on.

**MS MacRAE:** Okay, lovely, thank you. All right. Well, if I could call then the Wheat Classification Council. We might just check our phone line quickly, if you'll bear with us for a couple more minutes. So thank you very much.

**MR BRADLEY (PGA):** Yes, thank you.

**MR MUMBY (PGA):** Thank you.

**DR CRAIK:** Thanks very much.

**MR BRADLEY (PGA):** Thank you, Wendy. Bye.

**DR CRAIK:** No, thanks Leon, thanks Sheldon.

**MR MUMBY (PGA):** Thanks, Wendy.

**DR CRAIK:** Thanks.

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**MS MacRAE:** I'm welcoming the Wheat Classification Council to the table. If you could just give us your full name and the organisation you're representing and some opening comments?

**MR SEWELL (WCC):** Thank you, commissioner. Robert Sewell, chair of the Wheat Classification Council. In the submission that I put in on behalf of the Wheat Classification Council at the beginning I made the comment that they were my thoughts and it hadn't been cleared through the council. I would just like to clear that up, because we put this submission in on 13 November. Obviously if you look back at the history of the council, when I was appointed chair by the GRDC my first role was to go around and visit all the stakeholders. So I knew what they were thinking and I knew the background to all the information that I've put in. So I did that with some comfort. I can then say that every one of the members of the council have received the submission and they have also - subsequent to that they have all received a one-on-one visit from myself, whether in Sydney, Melbourne, Adelaide or Perth. They have all commented and so I can now give it with full conviction that it is actually a submission on behalf of the council. So I'll clear that one up.

**MS MacRAE:** Thank you.

**MR SEWELL (WCC):** The Productivity Commission review into wheat exports Australia is a fairly broad review of a whole range of issues. I can assure you that I have personal views on all of it. However, I am representing the Classification Council, which is also a significant part of the issues paper, and I'm going to focus on that, because I don't think it's fair to give my own views on other issues; but I'm happy to do that at another occasion. The submission covered a number of areas regarding classification, so I'd like to just go through those one by one and just make a few more comments.

Perhaps the first part of the submission is asking whether or not it was adequate for ensuring wheat quality and the usefulness of classification. It's very early in the stage of course of the life of classification and in fact it's very early in the stage of deregulation, and there is a whole settling-down process going through, whether it be transport, storage and handling, marketing, classification, market information. People are still trying to gain their niche or they are settling down with it.

The classification process was only formed in April and we have had two meetings. The first meeting was the senior executives of all the stakeholders involved, to actually formulate the policies, procedures and the way forward. But more important for the industry, the second meeting on 22 October was a full working meeting, and I think that was very, very important that we had that. In fact we had nine submissions covering a range of topics, 22 action items, to actually take classification to, hopefully, what will become a new level.

Asking whether it's adequate, an interesting thing and an issue that has come up even in this most recent round of meetings. It really is the only full industry based body representing the wheat industry in Australia, because it does represent the marketers, the handlers, the traders, the researchers, the cereal chemists, and, perhaps as I still am an active farmer, and as chair, I can say that it represents the growers as well, so it is doing that.

Classification in itself is an interesting animal. I believe it's confused by a lot of people when they look at classification. A lot of the growers still see classification as what happens when they take their grain to the receival point; that's not classification of grains, that's grading of grains, and there is a difference. Classification is all about looking at the inherent qualities of wheat, and that's usually done through a laboratory session, and it's certainly done long before the receival period, and classification really can't be altered during harvest. So that's pretty important.

Whether it's adequate also will rely on the access to data, and reliable data. Data comes in in different forms, but there's going to be the need of a mechanism to actually capture that data, to actually guide classification. That is starting to happen. I think there was a lot of jealously guarded information at the commencement of deregulation, but that's now starting to relax.

Some of the organisations are asking us to enter into confidentiality agreements and are prepared to supply data to one or two of the executive of the classification process. So that's improving. But it's going to be necessary to get some data to actually shape the crop, to actually look at where the classes of grades should be targeted and what amendment should be made in the future. So we'll look at that.

Very interesting, you know, talking about data. People, once again, see data in different ways, and the data that we're talking about is pre-competitive data, and I think if you can distinguish data into two forms, pre-competitive and competitive, I think each form has a different tag placed on it. I know a lot of growers want competitive-type data; so that's a debate for another day. The other issue is that this is a transitional model, like a lot of things that are happening, following the single desk and moving into deregulation.

The Grains Research and Development Corporation has put a transitional model into place, it runs until June next year, and one of the challenges that I have been given is to before June next year come up with a model - or, for a start, to say whether classification is necessary; if it is, what is the model, and also what is the funding. So some quite significant challenges. That's why, as I said, in the last few days I've visited 20 of the stakeholders that have some vested interest in all this to actually get their views; and there's a good range of views, so I think that's great.



One point that has become almost blatantly obvious, there needs to be some consolidation of some of the industry bodies. Classification is one part of it, but it's feeding off a lot of other parts of it that are supplying work and data, information, and actually the classification process, and I think there needs to be some consolidation and we'll be certainly looking at that.

You've asked whether the market could deal with these issues without such a body. I don't believe the market long-term can deal without a classification system, and the reason I say that is that our principal competitors have a classification system and they are using and selling on that. In fact one of the very interesting things is one of the markets that was considered to be almost - I don't like using the word, but others have used it - a gutter market, and that's basically based around Russia, is starting to move towards quality control and classification; so that they see it as a necessity to move into the marketplace. So I think we should take some notice of that.

The other point is that the world market actually knows Australian wheat and they know the classes of wheat; and I think we'd be very foolish to throw that out. There has been a lot of good work done by AWB over many years to establish and market the classes of Australian wheat and it's very, very important that we continue with that. We could survive without a classification in the short period; but if we did so, we'd be running on the efforts of the past, and I don't think that's really good.

The 20 that I visited, there was only one that said we should simplify and almost scrap the present classification system; in their view, Australia grows white wheat and we should divide the wheat up into protein levels and we should bin it and sell it accordingly. That I believe is a very narrow, simplistic view. This was an international marketer who's just trying to arbitrage and just buy wheat around the world and certainly not looking at quality. So I wasn't quite that impressed with that, and I don't think anyone else is very impressed with that.

Could we deal with it without such a body? Well, the central storage system also relies on classes to actually separate the wheat. It is now a deregulated market. We do have 25 licence holders. Some of those licence holders have pre-sold wheat and they require a certain class of wheat to market - whether it's APW, ASW Noodle, Australian Prime Hard, they expect that the central storage systems that are receiving those classes of wheat will keep the integrity of those classes, so that they can make forward commitments.

The system wouldn't be able to operate without such a system. The next question you asked was about the market differentiation, whether it's adequate between the qualities of grain and is the current level of commingling appropriate. The industry is finding its direction, and is of some concern to me, because I think it

is eroding some premiums at the moment. There are people looking at opportunities and in fact even going outside the boundaries of the classes and misdescribing the classes of wheat, and that is not good for the reputation for Australian marketers.

The current level of commingling is controlled, as I have mentioned, by the classes of wheat and the varieties placed in those classes, and it appears that it's quite adequate for the regime that we have adopted at the moment. As far as your question on whether there is adequate scope for marketing particular types of wheat, perhaps more narrowly specified than the Grain Trade Australia's standards, the answer has got to be yes, certainly there is adequate opportunity.

We are starting to see the market use classes of wheat as a starting point and then scope for a market, supply the niche markets. No more relevant than what is happening in Western Australia at the moment, where some particular varieties of wheat have been segregated and sold at a premium. It's still in the classes of wheat, but they are just altering the standards, and standards can be altered at the harvest time. So I think there is an opportunity there.

Grain Trade Australia sets those delivery standards. Any changes can't be made to a generic class of wheat during harvest, because a lot of that is commingled, and so that puts other traders at a disadvantage, but there is an opportunity of course for individuals to certainly segregate, and we're seeing that, there's some good wheat coming out of Western Australia.

Containers in the past season have been used for opportunities and perhaps that's where some of the biggest problems have come. There was euphoria around deregulation and everyone was going to get into it and it coincided with a rather cheap container freight market and it looked at one stage that everyone wanted to export everything in containers. The unfortunate thing is there has been misdescription and some of our buyers have taken containerised wheat expecting it to be Australian Prime Hard or APW wheat and found out it's actually not, it's been commingled and other classes have put in. I don't believe enough understand the damage that can happen there. As I mentioned, classification is about the inherent quality of the wheat.

You know, even as a grower I think protein is protein; 11 per cent protein has got to be better than 10.5. That's the physical measurement and quite often those proteins act differently. A protein in a soft wheat acts differently to a protein in a milling wheat and if you add those different classes together, the customers are starting to say, and they've used the word, "Australia is starting to bastardise its wheat marketing." Those sort of tags last longer than the good comments, so there is a problem there and there needs to be some form of - I believe it's self-regulation to make sure that doesn't happen.

Asking if the growers are able to extract adequate value for their grain, I'll reiterate the point that classification system and the grading system is hanging over. It's the legacy that was left to us by AWB when they had their single desk taken away from them and so people, marketers generally and consumers, customers generally overseas are still benefiting from the fact that they know APW wheat has this type of inherent characteristics and it will perform. It's generally acknowledged that that can survive for another short period but as buyers and traders at the customer level change, as they restructure their business, they will lose any relevance of long-lasting legacies and that will start to actually drive the value of Australian wheat into another term that's been used "into the gutter market" so I think we've got to be careful of that.

There is no doubt though that the quality growers have lost significant opportunities with the absence of the golden reward system that was formerly put in place by AWB, a system that could operate when a single marketer had control of the whole crop because they could afford to reward a grower for a better than the average quality in the stack, knowing that that quality was going to sit there and they were going to out-turn it. But currently when you've got 25 potential customers to a stack of wheat somewhere, you can't reward a grower when they put it in if you don't know you're going to get that wheat out. So there is a problem there and that's going to be one of the most difficult things to fix up. As I said, that misdescription is certainly a concern.

One issue that has been raised is that the industry now no longer has an official watchdog on what's happening across the whole spectrum of opportunities and perhaps we can touch on that and some industry good.

**MS MacRAE:** Could I just ask you if you could maybe have just five more minutes. I don't know how much more you have, but so we do have a chance for some questions because I'm aware that we're already asking InterGrain to wait longer than they should have been, given our slow start.

**MR SEWELL (WCC):** Thank you. Can the quality be left up to the market-driven forces? I don't believe it can because without a central system there determining those classes, determining the market needs and actually giving advice to the breeders, the breeders are really keen to hear that market information and they want their varieties as well. There's the opportunity for closed-loop marketing and that's working so that's quite good. But in the long term I don't believe anybody thinks that it can continue. Has it affected the reputation of Australian wheat? I believe I have already covered that. It was unfortunate that deregulation coincided with a drought year, with some confusions on the west coast with logistics, hot summers, lack of trains. People put a lot of those delays down to the fact that deregulation wasn't working but I don't believe that's correct and we're not finding too much evidence of that.

I don't believe commingling of stocks has increased biosecurity risks. I believe the bulk handlers are doing an excellent job in managing that and we're not seeing any evidence of that. Quality control is an issue for container wheat exports but once again the market forces are going to sort that out. Those suppliers that supplied misdescribed grain through containers, I don't believe will receive another welcome visit from buyers. The domestic market is very, very strong on quality. In fact they say it's vital that we have this system. Unlike the international market that are able to source their grain from anywhere, the domestic market is basically confined to sourcing Australian based wheat and they see that the classification system is vital to continue that role there.

On the industry-good functions, and this is area that's quite interesting - and I'm preparing a report at the moment for the GRDC board meeting next Wednesday in Canberra. But there is no doubt there are a number of industry-good functions that the market is calling for. Feedback from Asia, South-East Asia, Middle East from customers is they are looking for some industry-good function which was formerly done by AWB such as the provision of market information, the crop shaping. Wheat promotion is an interesting one, generic wheat promotion and here again it's very much promotion at a pre-competitive and then the competitive level. I don't believe that any of the industry-good functions should be done at the competitive level, I think it should be left up to the market forces but that's something being debated at the moment.

Branding of Australian wheat, we had good branding of Australian wheat and that's now disappeared and the customers are calling for branding of Australian wheat and some accreditation system and it can come through classification. Perhaps the last is there's scope to other grains. As an example, we do have a number of organisations such as Barley Australia, we have the Pulse Australia, we have the Oilseeds Federation and, of course, we can look internationally at people like the US Wheat Associates, the Canadian model, and to see that others are doing things and they're all being addressed at the moment. So classification is something that the industry wants. As I said, there is only international marketer, who doesn't buy much wheat, has said, "Scrap that," but the rest are much onside. Thank you.

**MS MacRAE:** Thank you very much for that. Wendy, can I ask you to ask your questions first and we're back on the mobile phone and then we'll see how we go. But we'd be looking to wind up this session by 10.30 because I appreciate our next presenters are time constrained in how long they can stay.

**DR CRAIK:** Thanks very much and sorry I can't be there. Just a couple of questions from me. In the submission we got from InterGrain they said, and I quote, "The current wheat classification system has no legal status and operates on inertia and common consent." Would you agree with that?

**MR SEWELL (WCC):** Absolutely and that's the reason we've got to look at a model to actually take the industry forward and it can't just sit there in isolation because it needs to feed off a lot of other tentacles in the industry and it needs a formal legal entity to do it and that will be part of the recommendation to the GRDC board.

**DR CRAIK:** Okay. You mentioned you're doing this report for GRDC for next week, is the GRDC looking at picking up some of the industry functions, do you know, or is it interest or what?

**MR SEWELL (WCC):** GRDC have been approached to support every organisation, I think, in Australia at some form and I'll interesting and I'll report to them, this is the six-monthly report that I'll be presenting to them, there is an overwhelming feeling out there that GRDC should stick to basically pre-farm gate business and let post-farm gate opportunities be farmed out into other organisations and I'll tell them that. One of the reasons I think that they have put a time frame of this of June next year is that they want to get out of it. They're doing this because the government asked them and they don't want to do any funding and carry on funding because hanging off the council is also the classification panel that actually reviews all the new lines from the breeders and that's also an added expense. So if we can find another way of doing it I think they will be very happy.

**DR CRAIK:** Okay. Do you see your comment that the ability of growers to attract adequate value for their wheat is just lost on the golden reward system, for instance? I mean, do you think that that's likely to change over time as the deregulated market develops further? Do you see that as a temporary phenomenon as a result of the sudden deregulation and the current competition between traders, or do you think it goes to integral change?

**MR SEWELL (WCC):** I think a scheme such as overall Golden Rewards scheme would almost be impossible to re-implement with the number of traders we've got now. But of course there's avenues for moving around that, as I said. The system still allows for that, and individual traders who want a specific quality or variety of wheat have the opportunity of doing that. We're seeing it, such as the Bonnie Rock segregation in Western Australia where it's for a specific market received on specific standards and it will receive the premiums.

**DR CRAIK:** Okay, thanks. There's just one more question. You put some models - this is back to your submission, you know, of possible models for the wheat industry and suggesting things like, you know, the Barley Australian model is good. Do you think any of those models that you've put here or some sort of modification of those are likely to be suitable for the wheat industry? Do you see that sort of approach, that view, developing in the wheat industry? Do you think it's likely that,

you know, industry will come to you to - officially to put some of these in place?

**MR SEWELL (WCC):** The models are there as a guide and I think we can learn a lot from those models. But once again, the overwhelming industry feedback that I've received is that it's impossible to take an existing model and mould it to do what the wheat industry needs, and that's an industry-good body and function. We have even looked at perhaps even the Wheat Exports Australia could be reshaped to actually do these roles. That has been strongly rejected; that it is impossible to take an existing body with its own mindset and executive and try and change it. Everybody is suggesting that it has to be an independent body with a skills-based representative board independent of these other organisations.

Trying to join with something and make a whole of grain industry model also doesn't wash with a lot of people because "wheat" is a very powerful word and when you have Wheat Associates in America and you have the Canadian Wheat Council and you have Wheat-this and Wheat-that - wheat is a very, very important point. So I think there's more support for something like an Australian Wheat Council which an area-like classification would fit well under that. But it needs a proper guided approach to take up the slack after the euphoria of deregulation to bring the wheat industry back on track.

**DR CRAIK:** Yes, okay, thanks very much for all that.

**MR SEWELL (WCC):** Okay, thank you.

**DR CRAIK:** Over to you, Angela.

**MS MacRAE:** Okay. I just had a few questions. Just on the industry-good side and what the body might look like, where do you see the government fitting in that, because we've had a range of views about whether it should just be an industry-only sort of body or whether government should be involved and what sort of funding model would be involved in that as well.

**MR SEWELL (WCC):** Look, this is a real industry-good model that will support the wheat industry and if the wheat industry is doing well I think, you know, the government will do well out of it as well. So I'd be very strong on seeking certainly initial - some initial, not total - some initial government support to allow it to develop. I think eventually the wheat industry has to stand on its own feet, so this model needs to evolve to encompass a whole range of issues. Nowhere near to the extent that the Wheat Associates who have a US\$14 million budget, you know, that's getting out of hand.

**MS MacRAE:** Yes.

**MR SEWELL (WCC):** But there is an opportunity and a number of the marketers have agreed that they would be prepared to commit to something like branding if there was a body there doing it. It actually becomes similar to the old heart tick of approval and if you want to use it on your sales documentation you will be prepared to pay a small price for it. The marketers have - a couple of them have even said that, "We'll pay a membership fee to be part of this." But it has to be independent, although, you know, I have heard Minister Burke say when he was in Perth in West Australia last he is very keen to see the government partner with industry and here is a great opportunity for them to partner with industry. I'm not sure how much of the 9 million transitional budget from single desk to deregulation, how much of that budget has been used, but there's an opportunity to do that. Of course there have been suggestions that if the Wheat Exports Australia is no longer required, well, there's some funds there that might help the transition to set up a model such as this.

**MS MacRAE:** Could I just ask a slightly more technical question, because I'm still not quite sure how WCC goes about its work and in particular how you decide when to change a classification or introduce a new one. What is the process that you follow for that? There seems to be a disagreement about whether that is an impediment to trade or not.

**MR SEWELL (WCC):** Well, perhaps the most public process is a call for submissions on particular issues. Perhaps the most relevant one would be in the case of Australian Prime Hard, which is a class of wheat that has two specific uses: one for the ramen noodle market in Japan and Korea, and the other for the very high level milling market. So when a breeder breeds for the Australian Prime Hard they have to cover the two spectrums. So there's a discussion at the moment, a lot of work going on at the moment, whether that should be split to a Australian Prime Hard Noodle, just as we did with ASW Noodle, to allow the breeder to breed specifically for the ramen noodle market with the characteristics of Prime Hard which is necessary. That would then enable it to capture that premium end of the market. So that's the way it's done. There's also boundaries, there's also boundaries for zones for classification. At the moment Australian Prime Hard is not allowed to be grown in South Australia or Western Australia and there's a big push to have that happen. So the Classification Council right at this moment one of its action items is looking at rearranging the boundaries and looking at the possibility of allowing now under deregulation for some of these issues to come out so that everybody can benefit.

**MS MacRAE:** So it's a WCC rule that says they can't grow it, is it?

**MR SEWELL (WCC):** It's a hangover from the AWB rule when AWB only had New South Wales and Queensland growing Australian Prime Hard and it says that they can only be grown in that area. Those rules haven't been changed yet but the council has that right in its sights to look at it, because there is a call from Western Australia to allow that to happen. Perhaps this Bonnie Rock segregation

this year will be the first of the examples of why this should happen. So that's how it goes about its business. As I said, it's truly representative with the breeders, the handlers, the marketers and pretty robust discussion. It determines - - -

**MS MacRAE:** Basically a submission-based sort of - - -

**MR SEWELL (WCC):** Submission-based to start with - - -

**MS MacRAE:** Yes, okay.

**MR SEWELL (WCC):** - - - and then the council will make up the decision.

**MS MacRAE:** Right. All right. Well, I'd better close that there. That has been useful again, thank you. It's a bit more of a speciality topic for us but we're learning a lot. So thanks very much for your time today.

**MR SEWELL (WCC):** Thank you.

**MS MacRAE:** If I could call on InterGrain to come forward now. We will hear from them and then take a morning tea break.

**DR CRAIK:** Thanks, Robert.

**MR SEWELL (WCC):** Thanks, Wendy.

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**MS MacRAE:** Okay, I'm sorry for the delay in us getting you started and I apologise for that. In fact, it's beyond our control. But if you would like to introduce yourselves, giving your full name and the organisation you represent and then opening statement and then we'll - for some time for questions, if you've got the time. Thank you.

**MS WALMSLEY (IG):** So Tress Walmsley, the commercial manager of InterGrain and Dale Baker, the chairman of InterGrain. So just a quick snapshot of who InterGrain is. InterGrain is a national wheat and barley breeding business and we are one of the key cereal breeders in Australia. We have a significant market share of the varieties growing in Australia. As a breeder we're integrally involved and a big benefactor of the classification system. So our response here today is really just about variety classification. We have really four key points that we made in our written submission that I'm going to talk about.

**MS MacRAE:** Sure, okay.

**MS WALMSLEY (IG):** You're happy for me just to go straight into that?

**MS MacRAE:** Yes.

**MS WALMSLEY (IG):** The first one is that yes, we very much support the continuation of a classification system. It has a significant impact into our wheat breeding program and we think that it has a lot of value adding to the industry. So very much supporting its continuation. We support classification being done by a truly independent panel and that that panel could actually sit within a broader peak industry body but there needs to be a separation around the task of wheat variety classification and it needs to be ring fenced from outside political influence and things like that.

In terms of - you talked about how you might actually change standards, and Rob referred to the APH example. Rob's example was about getting a new standard. We're also very concerned about how you would change a standard. It needs to be done in a manner that it is very much on current and real market feedback, is the first bit. So it can't be based on historical market feedback that you might have received. The other, second, really important point is that any change to a standard must be because it is going to achieve real benefit for the grower. So you can't just want to increase the standard for the sake of, "Oh, we want to have better quality crop." It needs to deliver an actual benefit to the grower.

In terms of variety classification, so this is actually the task of breeders submitting lines and having their individual lines classified, so that's the task done by the panel that Rob referred to, currently that's a free service, so breeding companies

are free to submit as many lines as they like. InterGrain takes a different approach to the other wheat breeding organisations in Australia in that we have a very solid internal quality assessment program. The lines that we submit - and we would only submit maybe three or four a year - are ones that effectively we know should get and will meet those standards. We don't use it as a quality review process. So there are other organisations that are submitting, you know, 50 or 60 lines. So our solution to this is that we would actually support a fee for service. So the actual task of variety classification, just that bit of convening the panel and having them make the assessment, we as a breeding company would be agreeable to paying for that service.

Then there is the other element that goes with classification, which is around lab accreditation, because we actually submit the data ourselves. So the data that we use needs to come from an accredited lab. That could be like any other lab accreditation process. They pay for that accreditation assessment and we would end up paying that in the service fee that we pay to those labs. But the industry-good tasks around branding the Australian wheat and things like that, that should be paid in a different way. We're not saying as a breeding company we want to pick up the future funding of that. It's very much limited to just that individual line assessment.

Then just the last comment is that in going back to when we would have our standards increasing, people need to understand that if you increase the quality requirements you are going to slow down the genetic yield gain that a breeding company can deliver because there is this indirect effect between increasing quality, and it does slow down the genetic yield improvement that we can make. So growers, yes, they like to grow a quality crop but they are fundamentally driven by yield. So we want to be getting as much yield improvement as we can by still upholding our quality standards. But don't make them too hard or we're going to lose as an industry. Do you have anything to add?

**MR BAKER (IG):** Yes, thanks, I'd like just to add that like we said before, there's no legal status for the classification system but it's an extremely powerful accreditation. If you don't get the right grade of wheat, say an APW, you give that variety the kiss of death and farmers won't adopt it at all. We have been through this case now - and as the system has been going on the classification system - the high-jump bar has been going higher. You can spend 10 years developing a variety and it misses out by .1 of a per cent of milling yield or flour yield and that gets ASW; you put it out there, the growers just won't adopt it. So there's - you know, to produce a variety of wheat is over a million dollars, so huge waste.

You've got to have a balance about the agronomic performance of a variety in the paddock against its quality and what it actually brings to the whole industry. We could have a variety that's 10 per cent higher yielding and it missed a classification by .1 of a per cent that would have meant a huge - extra income for the industry; you know, new varieties are just new technology. A number of the current classification

process - there are some varieties out there that would never have made the light of day and they've been the most successful varieties in Australia.

The other thing I'd like to put in is that GRDC should not be funding this project any further. GRDC is about research. This is not research. GRDC funds a lot of research into the flour yields and the flour quality and things like that but they shouldn't be involved in that. So welcome any questions.

**MS MacRAE:** Okay. Sorry, Wendy, I should let you go first. So you're right, Wendy? Can you hear us, Wendy? Yes, sorry, it's over to you for questions first if you'd like.

**DR CRAIK:** Okay. Thanks very much. Thanks Tress and Dale. Can I just follow up that last comment. You don't think GRDC should be funding WCC. So if GRDC shouldn't be funding the WCC then who should fund this classification exercise?

**MR BAKER (IG):** I believe industry should fund it from all parts of the industry. But GRDC is about - as Rob said, it's pre-farm gate research. This is a industry-good function and it's really not research. The industry - whether you go through the marketers, the traders, the growers - it's a whole of industry affair but it's certainly not GRDC's charter to do it.

**DR CRAIK:** Okay. Do you think if GRDC stopped funding it in July next year do you think anyone is going to step in and pick it up?

**MR BAKER (IG):** Good question. If there's a market need for it the industry will have to pay for it. I don't see this being a multimillion dollar expense each year. The panel can be run relatively cheaply. They will meet two or three times a year to do things.

**DR CRAIK:** Yes.

**MR BAKER (IG):** The council may come under a different umbrella but the panel, the expense of the independent panel, is not a lot. If a breeding company had to pay for each line it put in there they should be able to do it that way. Breeding companies are competitive and this would put the whole thing back on an even keel.

**DR CRAIK:** Yes, okay. Well, that's all I've got, Angela.

**MS MacRAE:** Yes. I just had a query about the - you know, we talked about you develop up a breed and it just misses out on a classification by .1. I guess the counter argument is well, the classifications are there but you can sell outside of those, especially in a deregulated market. What is to stop you saying, "Well" - I guess it's this issue of branding, that you can't call it APW. What's to stop you saying calling it

something else? But it's the specs that a market is buying on, isn't it? So wouldn't the buyer say, "Well, you know, this is missing out on APW by .1 but for my purposes that is not going to matter much, so I'm happy to still take that grain." I mean is it that falling outside that's giving - - -

**MR BAKER (IG):** Yes, I mean the trouble is if you actually go outside the different grades you have to store it separately.

**MS MacRAE:** Right, oh, okay.

**MR BAKER (IG):** Then you actually face a storage cost.

**MS MacRAE:** Yes.

**MR BAKER (IG):** Which is very high. For niche varieties with a high premium that's fine.

**MS MacRAE:** Yes, okay.

**MR BAKER (IG):** But if something missed out and you had to store it separately you wouldn't capture the value.

**MS MacRAE:** Okay. So how does that - getting back to the process how does that - you know, say you personally had an example that took that. How would you, I guess, enter into the debate or the process of the WCC to see if they would be prepared to broaden that classification. How does that work? Are you basically sort of locked out at that point and, "Sorry, you've done 10 years' research, bad luck"? How does the process work to try and bring that into the - - -

**MS WALMSLEY (IG):** There's two elements. One is that on that particular variety you can go back and there is a review process. So, you know, it's quite laid out and breeders do use that review process. The other alternative is, is that as you said, you actually go back to the Wheat Classification Council and see the standard to be changed. Again, there is a process that Rob described about how you would go about doing that.

**MS MacRAE:** Yes.

**MS WALMSLEY (IG):** But often to change a standard is going to take a number of years and market variety release is very timely. So there are small opportunities to bring a new variety into the marketplace or the next will be along and supersede it and you've lost your window.

**MS MacRAE:** So do you feel that the barriers to being able to get those

adjustments are too high now or are you saying that's sort of a reality and you have to live with it?

**MS WALMSLEY (IG):** No, I don't think they're too high.

**MS MacRAE:** Right.

**MS WALMSLEY (IG):** We need to make sure that any changes to the standards are going to be done in a very clear and transparent way so that everyone can have a valid input to the change of that standard.

**MS MacRAE:** I sense from your submission that you feel that that's currently not the case, that it's either not clear enough or not transparent enough or not rigorous and objective enough. I guess I'm trying to get to the heart of - if we were to change something that would make what you feel is a bit of a barrier to trade that's coming out of the work you do, what would we need to change? What is it about the process that doesn't meet that ability to market - - -

**MR BAKER (IG):** In our submission what we're trying to say is that we've entered into a new world of deregulation and we've retained exactly the same classification system with some of the old preconceived market ideas. We haven't actually moved the classification panel on until deregulation. Under the AWB system they actually kept raising the bar each year.

**MS MacRAE:** So in terms of the quality and standards requirement?

**MR BAKER (IG):** Yes. So if you raise the bar that high your genetic gain slows very quickly and growers are not getting any more for their grain, so what have they got to do? They've got to grow more grain.

**MS MacRAE:** I guess part of the thing and it's something that comes up a lot in the discussions we have is that when people talk about quality wheat, it's like somehow having - you know, higher protein is always better or whatever, that that's not necessarily the case and you can have lower proteins and bigger yields and the farmer is just as well off.

**MS WALMSLEY (IG):** In fact he would be better off, yes. So as long as you are within that, say, APW standard and your protein fits within that, so you meet that and then you just want maximum yield, so yield, yield, yield.

**MS MacRAE:** Yes.

**MR BAKER (IG):** But even just a measure of protein, 11 per cent in this grain and 11 per cent protein can be entirely different. There are things about protein quality

so it goes quite deep, different glutens and thinks like that. So just to say 11 per cent protein is standard, there are differences.

**MS MacRAE:** Rob talked a little bit about managing access to data. Do you see that that's a real concern and an issue going forward or is it just a matter of the market - Rob talked about some people feeling more comfortable about giving up data that they previously regarded as being private.

**MR BAKER (IG):** Are you talking about market signals, data as market signals?

**MS WALMSLEY (IG):** Data for market signals, yes. AWB in the past used to make, on a confidential basis, data available to us. So if we can have a system in place where we can source that confidential data from all grain traders, that will be beneficial.

**MS MacRAE:** Is that to make your case, for example, that because you've got basic case for a new or a changed classification on current market conditions and benefits to growers, is that what you need that data for?

**MS WALMSLEY (IG):** No, not really. It's more about actually making sure that we are breeding and making crosses for what the market is actually buying or what the market is actually wanting. Sometimes it's actually not tangible, number statistical data that we want, it's actually almost verbal feedback that they get from when they go to the flour mill in Indonesia and he says, "I really like this level of extensibility," that's really important to our breeding programs.

**MS MacRAE:** Okay. Do you see that emerging on its own in the deregulated market or is there an action that needs to take place to allow for that flow of data?

**MR BAKER (IG):** I think in a competitive world and the breeding company is just - traders are competitors, it will be done through relationships. Relationships is how you share knowledge.

**MS MacRAE:** Yes. Just one final question and you haven't raised it directly in your submission but I'd just be interested if it is a concern or an issue for you, is the issue about end point royalties and how that feeds back into, as I understand it, a way of getting money back to put into things like breed development and things. Do you see those end point royalties as an aspect of the system that's working well and is there - - -

**MS WALMSLEY (IG):** Essentially now wheat breeding in Australia is completely funded by end point royalties so there are no longer public breeding programs. So the end point royalty system needs to be completely functioning and at an industry level we've made a lot of progress and there's still progress to be made and there was

fear about how it would work in a deregulated market, before we used to just sign up AWB. But there were significant impacts of WEA inserting end point royalty collection elements into their accreditation process. That made a very big impact on a number of grain traders signing up and there are now 41 grain traders across Australia signed up to collect end point royalties.

**MS MacRAE:** If the accreditation arrangements were to be removed and there was no compulsion on those bodies to collect those end point royalties any more, would that be a problem to you, do you think? Has it sort of evolved no - - -

**MS WALMSLEY (IG):** I wouldn't see that as being a risk.

**MS MacRAE:** The absolute very final question, can I just be clear about - you're saying that there's no legislative backing. What would you specifically want that legislation to encompass? What would you want it to be enforcing because I'm not clear. What would a legislative backing do for a body like that?

**MS WALMSLEY (IG):** I think it goes with the brand. So it's like if you want to use the APW brand, then there needs to be a legal requirement that you need to have gone to the classification panel and been accredited as this is an APW. At the moment technically you could actually - we could market it as an APW variety and the industry would get upset with us but no-one could have a legal argument to come and say, "You actually can't legally do that."

**MS MacRAE:** Okay. So I guess there's a question of whether you think the market would sort that out. Ultimately, someone would be selling stuff overseas that's not APW called and you put it in your mill and it doesn't do what you think it should and then it's getting back to that brand reputation issue and how much damage that creates.

**MS WALMSLEY (IG):** Yes.

**MS MacRAE:** It's that kind of enforcement and a legislative penalty for marketing something that isn't what it says it will be.

**MS WALMSLEY (IG):** Yes.

**MS MacRAE:** Thank you for clarifying that.

**DR CRAIK:** Could I ask a question just following up on something Tress said. Tress, did you say that WEA has included as a condition of accreditation that the traders ensure that end point royalties are paid for the wheat that they have purchased. Is that what you're saying?

**MS WALMSLEY (IG):** In one of the criteria, I think it's actually around - is there one around goodwill? In one of them specifically - I could actually send it in later, the relative component - it does actually say, yes, that you need to be able - there's a tick the box, "Have you got in place systems for end point royalty collection?"

**DR CRAIK:** Okay. I was just wondering what that covered in terms of the criteria and the accreditation scheme that's all.

**MS WALMSLEY (IG):** It's a small part of a rather large section.

**DR CRAIK:** Yes. Thanks very much for that. That's very useful. Thanks, Angela.

**MS MacRAE:** Thank you. We might break there for morning tea. We were due to start back at 11, we might make that 5 past to give everyone a little bit of a break and we will return with the WA Grain Group. Thanks very much for everyone's participation this morning. We will see you again in 15 minutes.

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**MS MacRAE:** Thank you, gentlemen. If we could follow the same pattern. If you could introduce yourself, give your name and the organisation you're representing and an opening statement and then time for questions, that would be great. Thank you.

**MR MARSHALL (WAGG):** Thanks, Angela. My name is Ray Marshall. I am a farmer at East Pingelly, Western Australia. My role here is committee member of the Western Australian Grains Group and I'm here representing the views of the WAGG, as we call ourselves.

**MR DONEY (WAGG):** Yes, I'm Robert Doney. I farm at Dudinin, and I'm the same, a member of the WAGG group, here representing them, and our members are incumbent with it.

**MR MARSHALL (WAGG):** Just before I go any further I'd like to offer apologies from our chairman, Mr Doug Clarke and our vice-chairman, Mr Scott Uppill. They apologise for their non-attendance. You'll realise we are in the depths of harvesting operations, and they both have three or four hours' driving, and they just couldn't attend. So they offer their apologies.

**MS MacRAE:** Right.

**MR MARSHALL (WAGG):** In the preamble to our submission I'd like to just read. WA Grains Group welcomes the opportunity to comment on the export marketing of Australian wheat post deregulation. The WA Grains Group has a small but influential membership. The prime focus of the WA Grains Group is to deliver is to deliver positive financial outcomes to WA growers. We recognise there are dollar savings which can be made by an efficient value chain operation and these savings passed on to the growers.

Growers are at the bottom of the value chain and have in the past accepted all risks as to growing wheat in harsh and unpredictable climate; and this year is no exception, believe me. Now with deregulation and the transparency thereof, and this needs to be ongoing, our group is aware of parts of the value chain which could operate more efficiently, thus creating better dollar returns to the growers.

**MS MacRAE:** Did you want to say anything, Mr Doney?

**MR DONEY (WAGG):** Yes, I just endorse that. But I think the important part of that statement is the better dollar return to the growers, that's what we're here for, and if growers aren't making a good income, well, then you're not going to have it, and it's as simple as that.

**MS MacRAE:** Okay, well, it looks like we're over to questions then, Wendy. Would you like to start?

**DR CRAIK:** Thanks very much, Angela. Thanks, Ray, and thanks, Robert, thanks for your submission. Perhaps if I just take off from your last comment: you think there could be better dollar returns for the growers. I guess we'd be interested in hearing what you think needs to be done to create better dollars returns for growers in the deregulated markets.

**MR MARSHALL:** Wendy, it's Ray here. I guess from the outset of deregulation is that the prime purpose of any farmer is to maximise his dollar returns from the business that he is in, whether it's growing wheat or running prime land. The reality is that our group is very big on the functions of an industry chain. The great benefits of an industry chain is identifying where the strong links are and where the weak links are, and with deregulation, and now that we do have this industry chain in operation, and though I think it's a very good concept there are some weak links in it.

It has already been identified in Western Australia that our transportation in regards to road and rail is probably a little dysfunctional; that's the first thing that has come to mind. Competition at the ports is another issue that probably needs some attention. But in reality I think as time goes by we will be able to identify where cost savings or cost benefits can be made. The WAGG group would never say that growers should be the prime beneficiaries to that, because everybody within the chain has got to make their margins of profit to retain their business, but farmers are no exception to that.

As I explained in my preamble, it's pretty tough out on the coalface, and certainly this year, with quality issues and probably a bit of a tardy finish, it doesn't get any easier, believe me. They would be my comments. Probably just to finish off, I think as time goes by, and now that there has been this industry chain that I speak about established, we will be able to identify where perhaps we can do it better. Having said that, one of the main statements that I always make is, "Well, let's look at it, and can we do it better?" as simple as that. I might pass over to Robert, if he would like to make a comment.

**MR DONEY (WAGG):** I don't think I need to enlarge on that. I think Ray summed that up pretty well.

**MS MacRAE:** Could I just ask, when you talk about the supply chain arrangement that's in place, are you talking about Grain Express?

**MR MARSHALL (WAGG):** Grain Express is one part of the supply chain. That's a function of the CBH group and as a group we supported the concepts of Grain Express. Well, let me put it to you this way, Angela, even in Robert's business and

in my business and in every farming business in this country, or probably the world, there's always the issue of, "Can it be done better, and can we do it better?" If that's the case, then it always boils down to dollars and cents. Grain Express is a great concept, but like on my farming operation and Robert's, "Can we do it better?"

We have identified our poor transport infrastructure. Let's not be too hard on governments, because roads and rail are extremely expensive items, but at the end of the day you have got to get a tonne of wheat from up-country to a port somewhere, and that's an exporting state, which you have been obviously made well aware of. We export 90 per cent of our grain, including wheat. It's imperative that our least-cost pathway is as good as it can get. We don't want four-lane highways, we just want suitable transportation, to be able to do that.

**MS MacRAE:** I guess we have had difference of views in the submissions, just to press the Grain Express point a little bit further, about whether that's an impediment or a positive link, in terms of making that supply chain more efficient, so in terms of doing it better. There seems to be one view that this is a good model and we should keep it and it's a good part of the system in Western Australia. We have had another view that says that it's making it harder for people to be able to compete on those supply chains and make them as efficient and as least-cost as they might be. So would WAGG have a view on that?

**MR DONEY (WAGG):** Yes, I think we would do. I think Grain Express can be got to work better, and that's not being critical of it. But it's a concept that has just started and that can be enlarged on. I wouldn't have thought it was a big problem at this point in time. I think probably one of the things that a lot got caught out on was we had a lot of difficulty here last year with shipping. But that's because a lot of growers swung about from pooling and went into cash, because of the good markets, and we were caught out - not we, the grain growers, but the handlers, were caught out there.

But that's something they'll address, I would imagine, and get around to. You've got to remember it's all a new concept and nothing that you bring in new is fixed straightaway, it's something that you've got to allow to evolve; and as long as they're prepared to allow it to evolve, I think they will be able to get it to work.

**DR CRAIK:** Just following on from that, in terms of transport logistics, and I guess it's all tied up with Grain Express, the issue of quality rail lines. There have been a few reports which point out the difficulty of the number of speed restrictions on rail lines and different gauges, all those sorts of things. Do you have a view about actually should government intervene or is it a matter for the private sector? Do you have a view about that?

**MR DONEY: (WAGG):** Yes, I do have a view about that, but I guess the

governments aren't going to like it. To me, I think there's only one way to go: to standardise the railways nationally, which would give the west coast a chance to export grain into the east coast, if it was necessary, or bring back cheap fertiliser. But I don't think you're going to win that argument with governments.

But can I just take you back on one point. The problem last year with the shipping, as I mentioned, wasn't all to do with Grain Express, because a lot of people dealt in the cash market with a lot of other buyers, and once you sell grain for cash the people who purchase the grain off you want to get it to their market as quick as possible so that they can get paid. So it's not all Grain Express's fault, that which I made comment on.

**MR MARSHALL (WAGG):** Just probably to follow on that too. There was a big hoo-ha about the amount of ships tied up around the ports of Western Australia, and I think, if you remember, just at that time the world shipping freight rates had dropped through the floor, so the reality of that as it was probably good business for a shipper to tie his boats up and wait for the load rather than sailing around the world. There were quite a few issues, more than one, about why boats were tied up outside the ports; I believe that was a significant one, in any case.

**DR CRAIK:** Thanks.

**MS MacRAE:** How do you then see the question of competition at port. Is it an issue to you? One view is that from the growers point of view that's, "The bulk handlers have to worry about that, let them sort it out." But do you have a view about whether the access undertakings that the bulk handlers currently have to enter into are a good thing; whether they should be continued; whether they should be required after a time, and should the Trade Practices Act be allowed to operate as it would in most circumstances without the WA requirements?

**MR DONEY (WAGG):** I'll put it to you this way. We have entered into a deregulated market, but the only place that hasn't been deregulated is at port side, and that is the only way that we get grain out of this country. To be fair to our handlers over here, it's probably not all their fault. But I do believe that if you want to keep costs down and everything, you need competition. I think we can honestly say at this point in time, with the competition that has come into the grain marketing, the growers have benefit from it at the moment, but I think once - - -

**DR CRAIK:** Do you see any likelihood of competition coming in at the port end.

**MR DONEY (WAGG):** I think there's a fair chance, yes. I can't go into a lot of details yet, but I think there is a fair chance. But how long it will take, I don't know.

**MR MARSHALL (WAGG):** Probably the only thing contrary to that is that if the

handlers - and it all gets down to this free enterprise - again, if they can be seen to be efficient, if they can be seen to be doing it at the lowest possible cost, then competition might not arise. But you never know if that happens until you have competition in the marketplace. Something certainly that WAGG group and certainly our chairman Doug Clarke has been doing a lot of work on, especially out of the Albany port, is the issue of, exactly what I said, you don't know the lowest cost until you have competition. That's just the reality of the free market forces.

The other problem too - and I will just regain my train of thought - and I can't say most, but certainly ABB and certainly the CBH group have marketing arms, and whilst there is no question that the integrity of free access is okay, and I mean the ACCC see to that, but then there's always a perception, say, in a grower's mind, that perhaps that might not be the case; and that's unfortunate, and in a lot of ways I sympathise with the CBH group and ABB and probably GrainCorp, that perception is in place in the eyes of a grower in that context. Is there a conflict of interest? I don't know.

**DR CRAIK:** Do you think they should be separated as a marketing arm and as a bulk handling company?

**MR MARSHALL (WAGG):** My view was and has always been - and I was involved in any organisation in Western Australia that supported the coming together of Grain Pool and CBH - I always had a contrary view, and that's going back 10 years. I have never thought that that was a good idea, because there is no doubt in this world - and we just went through it with the AWB in regards to the conflicts they had and the different parameters that the AWB Ltd and AWB International had - that it's very difficult to wear two hats without causing conflict, of that I have got no doubt.

**DR CRAIK:** Thanks. Just changing tack a bit. In your submission you indicate that WEA gives growers the security of knowing that the companies have the abilities to pay. Although, if the company fell over, the WEA accreditation doesn't guarantee that companies are paid, but do you still think the accreditation is a worthwhile thing to have.

**MR MARSHALL (WAGG):** Yes, we do, and we made that quite clear certainly in discussing it with our committee. We are very comfortable with Wheat Export Australia. We do understand that there's no guarantees, and that's fine, but we do understand that their process of sourcing diligence, prudential, the ability to pay is very thorough and I have actually sourced information from various grain traders, and it's pretty onerous, the tasks they do to prove themselves.

Whilst there's no guarantee, I think it's a very good, what would you say, backstop or confidence that growers can sell grain to an accredited company or trader

or whoever it might be, that has been issued a licence by Wheat Export Australia. We feel quite comfortable with that, and certainly in our submission we are suggesting that they continue in that role, and there was a bit of a debate whether it should be for two or three years. I sort of thought it probably could have been for three, but I was outvoted.

So at least for the next two years we would endorse the continuance of Wheat Export Australia. Probably within that two years too, whether there could be other roles found for Wheat Export Australia in regards to overseeing the grain - we would probably refer it to the grains industry, not only the wheat, but the grains industry of this country - to maintain perhaps some integrity and some overseeing of all kinds of things, probably similar to the American wheat associates. Yes, we see a role there. Perhaps, Robert, you might like to comment on that?

**MR DONEY (WAGG):** Just on the wheat associates I suppose, as long as somebody else and it's just not growers that are going to pay for it - - -

**DR CRAIK:** Yes, that was going to be my next question, "Who is going to pay?"

**MR MARSHALL (WAGG):** Yes, who is going to pay for it. It always boils down to money at the end of the day.

**DR CRAIK:** Yes.

**MR MARSHALL (WAGG):** In regards to the continuance of Wheat Export Australia, I think export wheat growers only contribute 22 cents a tonne, which I think is really not a huge issue in regards to an 8 to 10 billion dollar wheat industry. I think at this point in time that's a good investment and I think that Wheat Export Australia are very diligent in what they do. I think Peter Woods is a very good operator and I just think it certainly does give growers a sense of security that when they deal with people - and while I understand that there is no guarantees, it just gives a sense of comfort, I guess, for want of a better word.

**DR CRAIK:** Do you think if you extended the functions of the WEA then wheat growers generally would be happy to pay an increased amount, an increased levy?

**MR MARSHALL (WAGG):** The WAGG view is if that was the case, then getting back to this industry chain and we're trying to get away from this - I just can't quite grasp the word - but there has always been a perception that the wheat industry or the grains industry of this country was grower owned and grower controlled. In deregulation it would be seen that it's a whole industry involvement, therefore the whole industry should have an obligation to be part of any enhanced Wheat Export Australia. Probably even to the extent that government might even, say, chip in a million dollars or two. It appears that it's not overly expensive in the context of the

value - we will stick with wheat - of the export wheat industry of this country. So if it costs five or six, whatever the figure might be and like us as growers in our business, it's got to be lean and mean and it's got to achieve and do things and I think that would probably be money well spent. I don't know, Robert, do you want to comment?

**DR CRAIK:** If the government were going to kick any money, what would be the rationale for the government to put in some money?

**MR MARSHALL (WAGG):** When you talk to governments about money - and I'm in local government and I can tell you it's always difficult to get money out of even local government. I think it's probably the export grains industry of this country. In the big picture it just doesn't belong to growers and traders and marketers and storers and handlers, it actually belongs to the people of this country and I think that it's maybe one of the roles to government to oversee that it does function in an orderly fashion and performs with integrity on the export, keeping in mind that Western Australia does export 90 per cent of all grains, is that maybe their participation would be desirable.

Having said that - and we made it quite clear in our submissions to the senate inquiry during the week on deregulation - these regulatory bodies et cetera et cetera; the last thing they want to do is nail the industry so tight to the floor that it can't move, so there has to be some rationale and some flexibility within that. Certainly our group says that it's always a moving target, the ducks are always moving and you've got to be sensible enough to be flexible. I think there is a role for government, the long and short of it. Robert.

**MR DONEY (WAGG):** Can I just take you back to the start of your first question before you answered this one on the 22 cents, do you think that growers would pay more. I would say no, 22 cents is enough as long as other people paid in. What would be the growers' biggest concern is that they would be funding the whole lot and, as Ray has said, it's a whole of an industry thing so I think that answers that, as far as I'm concerned.

**DR CRAIK:** Thanks. Just one more question from me, the access at the port, do you think they are achieving a service to the industry and that they ought to be continued?

**MR MARSHALL (WAGG):** The access to port, are they achieving what they intend to do, is that - - -

**MS MacRAE:** Yes, and is there value for you?

**DR CRAIK:** Yes, and there's another saving the ACCC has put in place at the ports

for the bulk handlers, do you think it's necessary and desirable and that they should continue to be in place?

**MR MARSHALL (WAGG):** My comment to that, I think the ACCC put the through the washing machine and I think that the ACCC are a very, very strong organisation, I do believe. I don't think I would like to come before the ACCC. I think the checks and balances that have been put in place by the ACCC I think you stepped outside those I think you would be asking for trouble and I don't think the storers and handlers - I think they would be silly to do that. So I think that just for present time, as far as from a grower's point of view and I speak for marketers or other marketers, I think it's probably okay but I again say, can it be done better? That's the question I would ask. Robert

**MR DONEY (WAGG):** I agree with that.

**DR CRAIK:** Thanks very much. Back to you, Angela.

**MS MacRAE:** I just had a couple of more specific questions and one of them is that there is a paragraph in your submission that I don't understand and I think it's just my ignorance so I just wanted some clarification about the arbitrage between the old and the new season's wheat and you seem to rightly say that you really can't differentiate those. So how is it possible for people to do that arbitrage and is it a question that the marketers are presenting something that's, in your view, not right or how does that work? I just wasn't sure what point you were making there.

**MR DONEY (WAGG):** I know a grower that's still got last year's wheat still in the bins, warehoused it, and they told him it would have to be reduced money. Anyhow, he rang other marketers around - I'll go back a step. He was told that they have to do this when they sell grain. He's got in touch with other grain marketers and said, "We've never ever had that information, never done it." These particular people that are doing it, we're just questioning what they're on about. But if it's kept stored right and it was stored in our local bins, the market doesn't seem to have a problem. But they were actually - well, it was printed out at one stage, canola withdrew a deduction of around \$50, wheat was around 10 to 20 dollars and if it meets all the qualifications and the standards, we're saying, "Why, when the market is not asking for it, why is this happening?"

**MS MacRAE:** So is this one marketer saying in their information they're putting to growers, "If you're providing us with wheat from last season, we're going to give you \$20 less"?

**MR DONEY (WAGG):** Yes.

**MS MacRAE:** I guess that's the view of the market. You can say, "That's not a



reasonable proposition, I'll go and see what the guy down the road is offering."

**MR MARSHALL (WAGG):** It's too late once it's in that system though. If you've got it stored on-farm you can do that, but once it's in the system then, unless you had it warehoused you can't pull it off the acquirer.

**MS MacRAE:** So you're not talking about on-farm storage, you're talking about once it's in storage?

**MR MARSHALL (WAGG):** Yes.

**MS MacRAE:** Okay.

**MR DONEY (WAGG):** I think, just to take this arbitraging, it's all about transparency. It's about arbitraging, as Robert has pointed out, from old season compared to the new season and there's no doubt about it, there are more than likely some bulk shipments that contains some of last year's crop. The reality of that is what we would like to know is what percentage of last year's crop, as compared to the new season's crop made up that mix for argument's sake and the WAGG rep is certainly advocating greater transparency within the system and within this industry chain so that growers can make informed decisions about how they, in this free market environment, can sell their grain for the best possible price. Because if there is an opportunity to sell it at the best possible price, now we have the choice to do that.

**MS MacRAE:** But I think you're making a slightly different point there, aren't you? In relation to what you've just said, you're talking about wanting to know what's come from last season and this season so you have a better idea of stocks, not so much a marketing thing?

**MR DONEY (WAGG):** No, you're being quite specific in regards to the transparency and stocks, whether it's old season or new season is what we're advocating that needs to be transparent. The transparency we believe, WAGG believe, can/could/maybe result in better marketing decisions made by the growers who would like to market their grain at maximum dollars. In our preamble that's what we said, is that we're out to try to give the growers of Western Australia the opportunity to market their grain at the best possible return.

**MS MacRAE:** I'm sorry, I feel like I'm going in circles now. So if both the old and the new season's crop met the specs, why does it matter to you which season it came from? I thought that was the point that you were making, that it doesn't make any difference, but the marketers are trying to say it does.

**MR DONEY (WAGG):** One.

**MS MacRAE:** One marketer is trying to say it does, okay.

**MR DONEY (WAGG):** Others said they don't bother, doesn't matter.

**MS MacRAE:** No.

**MR MARSHALL (WAGG):** We're not going to pick on anybody. But we know, there's no secrets in the grains industry.

**MS MacRAE:** Does that mean though that then you'd have enough information to say, "Well, I'm not going to put my grain in with this guy because he's going to dud me on the - once it's in that system, I'm not going to get the return I should?" I guess what I'm getting at is, is the market going to sort this problem out or is there something systemic that isn't going to sort itself out?

**MR MARSHALL (WAGG):** I don't know, Robert, but - - -

**MR DONEY (WAGG):** I would say eventually the marketer will probably sort it out but it's just something that wants to be pointed out. The marketer will determine what they're going to pay, what they're going to take and what standards they want at the end of the day because he's the man who's paying the money.

**MS MacRAE:** Yes. Then I just had one very final question. It was just in relation to the suggestions you made in relation to the information that's available for growers and I guess for the market more generally. Your request seemed to be for having quite a lot of information literally on a daily basis. I don't know if you were here earlier, but the question that I put to some of the earlier presenters about (1) the practicability of getting daily information and getting it back to you quickly enough that you could use it for marketing purposes and (2) the quality of that information, given that we know from the submissions we have received there are an awful lot of growers that say, "What I've got is my business, I'm not telling you and if you ask me I still not going to - I might give you a number but I'm going to tell you it's the real number." There's obviously a cost in collecting that information as well. So how valuable will it be, how reliable will it be and is it even possible, even if you thought it was a good idea to get this daily information coming out?

**MR DONEY (WAGG):** I think the information we're after is not - it's unsold grain. I will give you an example. We'll just work on an APW. If there's half a million tonne of APW and the market is going strong and wants APW, you've got your grain either warehoused or stored on farm and you say, "Well, this is going to pick up. This is going to get" - what was sold, and we're not interested in who's bought what or whatever. It's the stocks that aren't sold is what we're interested in so that you can make a better marketing decision. Well, you don't because I was telling Ray coming

down, I was on the header yesterday, the phone rang, our marketer bloke was on the phone, he was stripping a particular variety of wheat which is too high in protein, "Store it and we'll sell it later." But if you knew that particular variety of wheat, there was two million tonne coming off and there's only 150,000 tonne market, you'll say, "We'll have to get out of this quick." But if it's the other way round, you can say, "I can punt on that, I'll leave that sitting a while because the market can move.

I want to specify this, it is the unsold grain we're interested in. We're not interested in who has bought what. That's nothing to do with us. It's what's not sold, what's in the system that is not sold in its grades is actually where we're coming from. Once it's sold we know it's out of the road and that's not our problem.

**MS MacRAE:** To get an accurate number on that, would you need an estimate or a number for on-farm stocks, given that that's an increasing part of the market now because that seems to me to be a particularly problematic area to try and - - -

**MR DONEY (WAGG):** No, that's a fair point. I don't know how you'd entirely get all that but I think through the handler system would be probably - that is where the greatest amount of grain is actually held at this point in time.

**MS MacRAE:** I guess the last point just on that, there are these new contracts that seem to be emerging in the ASX, they've got this new listed WA wheat futures. To the extent that that is giving you a much clearer market signal than you might have had previously, will that, do you think, alleviate the need for this other information? Will that give you a bit more of a feel for what the market is doing day to day?

**MR DONEY (WAGG):** I don't believe so, I think you need them both, to be perfectly honest. But I think the strong point still is you must know - to make a good marketing system, if you know one quality of grain is going to be short, you can sit on it. If you know it's plentiful then you're going to cut your losses and get out. That is just another string to your bow to making hopefully a more informed decision on when and where and how to sell your grain because you can only sell it once.

**MS MacRAE:** Yes. I guess that the other issue that has come up in that context is if that information was available to our overseas buyers that they're also going to say, "Well, we know what's short and what's long here now as well," and while the grower might think they can advantage themselves from that transparency of information, for the overseas buyer it's going to be hard to find a system that says, "We'll give it to our domestic guys, we're not giving it to the overseas," and the overseas guys can manipulate and work out where the shorts are as well and it might end up being a detriment to the grower, depending on how both sides of that transaction work.

**MR DONEY (WAGG):** It's a fair comment but I think they've got a pretty fair idea

now, to be perfectly honest with you. I may be wrong but I do think they - buyers talk like growers talk.

**MR MARSHALL (WAGG):** With Google Earth I reckon you could see that our header was broken down yesterday and even the swear words coming out of our mouths. The reality is now that the world is a very small place and there are no secrets in the grains industry and the WAGG believe that information - you run the grower short of information when everybody else has got the information, even the overseas buyers. You want a bit of a level playing field. The new generation farmer - and on that, there are five grain marketing companies that I get daily SMS updates and price. On that you can get a seven-day weather forecast so you know where the rain - whether to do this or that. You can get all sorts of things on that just out in the paddock. You can actually sell grain on that from the header seat.

**MS MacRAE:** Right. That's a mobile phone he's holding up there, Wendy.

**MR MARSHALL (WAGG):** A mobile phone, Wendy, and all this information whether it's a benefit or whether it's not it should be made available and then the grower can determine - and we use the term about sorting the wheat from the chaff for argument's sake. He will determine what's of benefit to him and what's not. On a daily basis you might say, is it overdoing it, but at least the information is being made available. Can it work against you? Of course, you've got to always turn the coin over and maybe it can. But if everybody has the information, everybody can make a fair judgment, as Robert says, about perhaps selling at the price. If Western Australia is full of APW because the price is going to be low, but if there is a shortage of AH1, then the price is going to be high. That is just the information that you need. I always think a lot of information is better than little information.

**MS MacRAE:** We had better close that off there so I can move to the next participants who have probably been wondering how long we're going for. So thank you very much, gentlemen. Thank you for taking the time and we appreciate that you have driven a very long way to be here with us and definitely at this time of year it is very much appreciate. Thank you.

**MR MARSHALL (WAGG):** We appreciate the opportunity to come before you as commissioner and be able to state our point of view on where we think we need to take the grains industry for the next decade. Thank you.

**MR DONEY (WAGG):** Can I just make one closing comment.

**MS MacRAE:** Yes.

**MR DONEY (WAGG):** What we have done and what you're going to do, nothing must be cast in stone. If it's not working for growers, it must be easy to dissolve.

We don't want anything that's been fixed that can't be - - -

**MR MARSHALL (WAGG):** Yes, nailed to the wall.

**MR DONEY (WAGG):** Thank you for that.

**MS MacRAE:** Good parting comment. Thank you.

**DR CRAIK:** Thanks very much, Ray. Thanks very much, Robert.

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**MS MacRAE:** If I could call the WA Farmers Federation. Wendy is on the other end of the mobile phone. Wendy Craik is the presiding commissioner and she's on the other end of the telephone in Canberra because she wasn't able to be with us today and we were hoping to have a more appropriate space set up than the mobile phone but the line doesn't want to work for us. If you would please state your name and the organisation you're representing for the record and an opening statement and then if we have some more questions, that would be great. Thank you.

**MR CLAUSON (WAFF):** Derek Clauson, I'm president of the Western Australia Farmers Grains Council. With me is Kevin Jones, our senior vice-president, and Danielle Whitfield, our grains executive officer. We thank you for the opportunity to speak to our submission. We'd like to point out at the start that our submission was general in nature and tried to address as many of the points that you raised. We'd also like to emphasise the inconvenience of the timing of the inquiry. At 7 o'clock last night, I was sitting on a header 300 kilometres from here and I intend to get back to it this afternoon, so in the future we'd love a little more consideration, if possible.

We would like to raise some points relating to the fact that some of us were involved in negotiations throughout the transition from a regulated marketing single desk environment to the submission that we find ourselves in now and we consider that we're still very much in the transitional phase. There's still a lot to be learned on the way through and I think a lot of people are still divided as to which is the best system in terms of providing maximum benefit to the wheat growers of Australia.

I think it's very important to differentiate Western Australia from the operations of the rest of the wheat industry in Australia, in that, as I heard the previously submission say, we export 90 per cent of the wheat produced in this state and we really have no underlying domestic market to fall back on. So the reputation of Australian wheat is critical to the ongoing viability of the Australian grains industry and specifically the Western Australian grains industry. So we see that the WEA has a potential role to play in the maintenance of the reputation of Australian wheat, ensuring that the quality today does not slip from the position that it enjoyed under the single desk. In some ways Wheat Exports Australia is being a toothless tiger right now. It sits back and accredits potential exporters.

There's a fair degree of uncertainty as to the future and funding of AQIS and when you put Wheat Exports Australia looking for a future role and AQIS looking, it seems, to duck some of the responsibilities it's had in the past, there's a potential there, we feel, for WEA to step in and play a real role in looking after the reputation of Australian wheat. We see no role for Wheat Exports Australia to play in terms of trying to emulate the position of the US wheat associates which see basically as a sales group, lobbying group, and in fact the WEA is a statutory body and it is funded to do that role but that's a different exercise.

One of the inadvertent consequences of the transition has been a very costly process to our local cooperative, and I would stress in Western Australia that we are very, very lucky to have a grower-owned cooperative; I think it's the last really grower-owned cooperative in Australia that has any real presence in the marketplace, and that's CBH, being both a bulk handler and having a grain marketing subsidiary in GrainCorp.

CBH has been fairly well regulated in the past through the Western Australian Bulk Handling Act and it is also obviously subject to consideration and examination by the ACCC and the other regulatory authorities. Given the unique role that CBH plays here in Australia, its main aim should be and is, I believe, to return maximum value to its grower members. I don't know of a grain grower in Western Australia who would not be a member of CBH. So in effect CBH is policed by its membership and it is under constant vigilance to ensure that it returns maximum value to its members and that it sets the bar over which all other competitors need to jump. So we see that there has been a concerted attack on CBH by various other marketing entities to try and destroy the structure of CBH and destroy its reputation here in Western Australia.

I think Western Australian growers would be climbing all over the board of CBH if it was seen as obstructionary and preventing competition being brought to the Western Australia growers in terms of them being able to choose the best price they can. We at WA Farmers believe that CBH has a huge role to play in the future of the WA grains industry, so long as it can maintain its current structure.

We feel that CBH has been penalised grossly by the costs it has had to incur in meeting the access undertakings regarding access to port facilities. We would question why the Melbourne port was excluded from being required to participate in an access undertaking, when in fact those facilities were owned by associated companies of AWB, Sumitomo and ABB. What we feel is that just leads to any potential competition looking at legal loopholes as to how to avoid the access undertaking considerations in the future and I don't think that's a healthy situation.

So I guess that pretty well covers it. One of the real concerns that we have is that if we're going to continue to fund Wheat Exports Australia that we want them to have some teeth because they are very much a reactionary body after accreditation takes place. In other words, people are going to suffer damage before anything can be done. I think recovering or trying to eliminate the party that has caused the damage and brings them to task is going to be quite lengthy in terms of the processes involved. If WEA had some regulated powers, I believe that they could step in and be more proactive rather than reactionary.

That pretty well covers the position I have. I'd like to give Kevin the

opportunity to say a few words and then we'd be happy to answer any questions.

**MR JONES (WAFF):** Thanks, Derek and Angela. Wendy, can you hear me?

**DR CRAIK:** Yes.

**MR JONES (WAFF):** I'd just like to come in with probably an overview statement to say that in the context that CBH has been born out of the desires and the wants of the grain industry here over in excess of 70 years, it serves the needs of growers and their aspirations in handling grain to a large degree without any worry by the people who are shareholders of the cooperative and we, just as growers in the paddocks, see it as an impost that they have to come up with something like 1.2 million just to cross the t's and dot the i's to become accredited in the context of being suitable people to handle our wheat in Western Australia.

As Derek has just mentioned, it seems to be not the same level playing field when the same situation doesn't exist with Melbourne ports. I think it's for this reason that we want some undertaking today that will come out of this commission that the impost of this million dollars or excess continually on the grower-owned cooperative in Western Australia just to meet access requirements for other people who have reservations about it as probably an unjust cost on the industry. I will leave it at that.

**MS MacRAE:** Thank you. Wendy, we're up to questions, if you'd like to go first.

**DR CRAIK:** Okay, thanks. I get from your submission that WAFF is pretty happy that there is more than one purchaser of your wheat or one trader in the wheat market - that's the sense I get from your submission that there are a number of options where you can hang onto your wheat but I also get the impression that you're quite happy with not having any competition in the port access arrangement in WA. Is that a fair summary of your view?

**MR CLAUSON (WAFF):** No, we believe that CBH does provide and always has provided fair access to the competitors during this transitional period. They've gone out of their way to ensure that there was a streamlined process for all acquirers to get their grain to port and in so doing have ensured that there is real competition in the marketplace on an equal footing, I believe.

**DR CRAIK:** Okay. I just wondered, you seemed to be keen about competition but you're not so worried about the port access. It was just the difference I was interested in. Just going on to WAI, I'm just trying to get clear in my mind your view. As I understand it you think the accreditation process that the marketers have to go through is onerous and that it should be more like ESCOSA and you've suggested that would ensure reduced operational costs and ensure more efficient wheat



exporting arrangements. Perhaps if you could explain why you think it will be more efficient and then at the same time, as I understand it, you're suggesting that they could have a greater role and you'd like to see them have some teeth and I'd be interesting in hearing what you'd actually like them to be able to do in terms of a greater regulatory role.

**MR CLAUSON (WAFF):** I don't understand where we've said that we thought the accreditation process was too onerous. I think we said that the port access process was onerous in relation to CBH. In terms of Wheat Exports Australia having more teeth, we believe that if anyone has encountered difficulties in their dealings with a trader, that they should be able to report those difficulties to WEA and that WEA has some investigative powers in order to determine whether that complaint had teeth or not and if it had any credibility and if it did so, that they could do something about it.

**DR CRAIK:** Okay. Do you think they're prepared to pay an additional charge for WEA to do that?

**MR CLAUSON (WAFF):** I think the whole of industry needs to pay for that. I don't understand why it should only be an imposition on growers to a fair play throughout the grains industry in Australia. I think marketers should contribute somehow too by way of some form of levy on the total tonnage that goes through or on the level of transactions that take place. You know, we grow 20 million tonnes of grain here in Western Australia and between physically selling that 20 million tonnes and the amount of transaction that takes place, there's about a \$40 million difference. In other words, the traders tend to blow the transaction level up to \$60 million by the time the game is all over and that's one of the fallacies regarding information. We just can't get the information to cover all the trades to go on and put it to growers in a meaningful way, I don't think. But, sorry, I've diverted.

**DR CRAIK:** That's okay, thanks. Just back on the access undertaking, do you think that - I understand you don't think CBH should have to go through an access undertaking by the ACCC, but do you think GrainCorp and ABB should have to go through that?

**MR CLAUSON (WAFF):** I think the motives between the entities are quite different. CBH is a grower-owned cooperative serving grower members. GrainCorp and ABB and AWB are shareholder-driven entities with conflicting interests.

**DR CRAIK:** Okay. Finally, a number have submissions have indicated their concern about the quality of the rail system in WA. Do you have views about that and any thoughts about how it could/should be improved?

**MR CLAUSON (WAFF):** We have some very firm views on it. We think the

deterioration of the grain-handling network throughout Australia has crisis point, especially so in WA. You will read in our submission that we're confronted with a deteriorating road and rail situation and hopefully confronting an ever expanding grain transportation task in this state. So, yes, the solution is money. The solution is a futuristic view and faith in the grains industry and until there is the political will to back the belief of the farmers of WA, I despair somewhat as to the solution, to be quite honest.

**DR CRAIK:** When the PGA, I think it was, were here earlier today they suggested that there's a recent report based on the initial report of the grain industry group and then KPMG and - of the rail network to suggest that - there's some suggestion that the grain growers should be charged some kind of a toll to make them avoid using the roads and maybe some kind of regulation to stop them using the roads to basically save the money to improve the rail network and to actually "encourage" people to continue using the rail network. Are you aware of that? Do you have views about that.

**MR CLAUSON (WAFF):** Yes, I have views. I don't think we're examining road versus rail on a level playing field basis. Right now we have three groups involved in the operation of the rail network, the government of Western Australia, WestNet Rail and Queensland Rail. WestNet Rail is a subsidiary of Babcock and Brown. So you have the government leasing the rail to WestNet Rail, WestNet Rail charging ARG and access fee to run on that group. So you have absolutely zero synergy. It's a shocking situation of commercial structure that needs to be looked at and resolved. We've had the auditor-general come out and say that the West Australian roads are also in a fairly shocking state and \$800-odd million just to bring them back to an acceptable level.

We've got the same situation on the grain network and, as I said, for anyone to put 40 per cent basically of the freight rate is an access fee paid to WestNet Rail by ARG to move a tonne of grain and there is no impost. Once you pay your registration fee on your semitrailer and your insurances et cetera you're not really incurring any additional costs. In fact the more tonnes you can put on your truck and cart, the more profit that you make. The profit you can make on the railway line the way it's constructed or the business is structured right now, you don't really improve your profitability as you do on road. So until we can make a comparison that is equitable, I don't think anyone can draw any sensible conclusions.

**DR CRAIK:** Okay. Just one last question, on page 16 of your submission you said, "It is a sad fact that the fallout of deregulation has seen some observers publicly classifying wheat producers as falling into two categories: the vital few and the meaningless man." Could you explain what you mean by that.

**MR CLAUSON (WAFF):** I will make a correction, it was the vital few and the

trivial many in actual fact and that came from an address at the Australian Agricultural Consultants - AAAC they're called anyhow. We had an address into the prospects of CBH going forward as a co-operative versus it being corporatised. I guess a fairly well respected figure in the commercial scene - obviously makes money out of corporatising co-operatives et cetera but anyhow, he happened to categorised wheat growers in Western Australia into those two categories.

**DR CRAIK:** Okay. Thanks, Angela, I think that's all I've got for the moment.

**MR CLAUSON (WAFF):** Okay, thanks, Wendy.

**MS MacRAE:** I just had a few kind of follow up things, covering similar issues in a way but maybe from a slightly different perspective. Just in relation - coming back again to the access tests, I appreciate the position that your view is that given that it's a co-operative that CBH should be exempt from the access tests. Do you think it would be appropriate for those other groups that currently have those access tests or access undertakings imposed through the WEA arrangements, would it be appropriate either kind of within the next couple of years or on a slightly longer time frame, to move to an arrangement that is more consistent with our general access rules under our Trade Practices Act to determine access?

You mentioned the example of the Melbourne Port terminal and access arrangements in Australia are generally determined by who owns these things. You point out that to some extent it appears a somewhat arbitrary test where control is - who owns the asset isn't usually the test to be applied for access in Australia under our Trade Practices Act. So I just wonder if you have a view - accepting your position that you would like CBH outside of that altogether, would you see a more appropriate sort of test, given the way that the current tests under the act treat the Melbourne Port terminal - do you think a better fall-back position for that other part of the market would be the Trade Practices Act?

**MR CLAUSON (WAFF):** Well, the tendency seems to be towards deregulation. If we are going to achieve true deregulation if any player who has control charges too much it should bring on competition. I think ultimately that will be - if the people who control the ports are providing that service at reasonable value, then the cost of building competing infrastructure will determine whether potential new investors consider that exorbitant profit levels are being achieved or not. So yes, in order to - I think if we're going to deregulation then it is not fair that a bunch of marketers can get together and bring pressure to bear to ensure their own position without them having to invest in the infrastructure to provide that opportunity for themselves.

**MS MacRAE:** All right. Just in relation to the comment that there wasn't sufficient data to determine whether or not the changes in the arrangements had been beneficial on the whole for West Australian farmers, we heard quite a contrary view this

morning from PGA who were quoting numbers around the variance in the prices received for WA growers now compared to the east coast. They've provided us with some - or they gave us some sources of data that we might look at for that. I'm assuming that you'd be well aware of what the data that they would be looking at. I guess I'd be interested, knowing what your - or why it's not convincing to you when it seemed to be convincing to them.

**MR CLAUSON (WAFF):** Because during the debate on deregulation and a single desk it was well recognised that one of the problems with the single desk was a freight averaging system across the national pool which detracted about \$10 a tonne from West Australian growers because of their proximity to the South-East Asian market. So that's \$10 that you can easily pick up there. The other gain that we're achieving here is achieved through the low costs to Western Australia growers of the services provided by CBH, which in some instances would be between 20 and 40 dollars a tonne less than the people in the eastern states have to pay.

**MS MacRAE:** Is that more easily reflected now? So was that being effectively sort of cross-subsidised away under the old arrangements and it's accruing to West Australian growers now in a way it wasn't - - -

**MR CLAUSON (WAFF):** No, we always received the benefits that we achieved through the CBH system here in Western Australia. But it's more easily brought out by way of example on a state-by-state basis now.

**MS MacRAE:** So it seems to me that to some extent you do find that data compelling. So I guess I'm just trying to get at the heart of the differences - - -

**MR CLAUSON (WAFF):** I think the situation was always there apart from the \$10 a tonne.

**MS MacRAE:** Yes.

**MR CLAUSON (WAFF):** I don't think the fact that there are multiple marketers around has made a huge difference to the price we're receiving. Like I say, the grain traders are out to buy the grain as cheaply as they can from the growers and in a form that allows them downstream arbitrage so that they can maximise their profits on the way through. That's where the example of us growing a 20 million tonne crop traded to the level of about 60 million tonnes on its way through to being physically changing hands is what the game is all about. The big game is downstream of the first point of sale.

**MS MacRAE:** Can I just ask you about Grain Express, because we also had a difference of view from PGA this morning. But their argument was that, you know, once you've got it into the CBH system that transporting from anywhere up-country

to port then is within CBH's purview and it can't come outside that system again and that that was impeding competition and making the supply chain more expensive than it might otherwise be. I think they'd say that was a fair paraphrasing of their view. I'd just be interested on how you see that argument and the value to you from that Grain Express?

**MR CLAUSON (WAFF):** In the first year of Grain Express that pretty well was the status quo or the situation that prevailed. This year there have been changes made where any acquirer can make any arrangement to get their grain accumulations to port either by road or by rail outside of the CBH system. I believe CBH have freed the system right up. They have also introduced an auctioning system for port queuing.

**MS MacRAE:** Yes.

**MR CLAUSON (WAFF):** So yes, I don't know - I don't think you should be hearing too much more from marketers as to any impediments of doing business in Western Australia.

**MS MacRAE:** No. This is just a question of detail that came up at the - when we were seeing the Geraldton ports people and just talking about the possibilities of new competition coming into the ports. You just might know more about the port arrangements than I do. They were saying that with Oakajee that that is being built for much bigger ships than the Geraldton Port. So Panamax is the standard size in the Geraldton Port. It will be - was it Cape or something was the name they gave the boats for the - or the ships coming into Oakajee and that those bigger ships were good for iron ore. Would they be good for wheat as well? Would we go out in much bigger quantities? You might not be able to answer that but I'm just thinking about port access and what - - -

**MR CLAUSON (WAFF):** No, I'd say - I mean the lowest risk you can take in exporting wheat is in a container.

**MS MacRAE:** Yes.

**MR CLAUSON (WAFF):** The larger the cargo capacity it becomes a bigger risk involved.

**MS MacRAE:** Okay. So the opportunities or the - opportunities, yes, I guess, for access, opening up there, is probably a little bit risk related or there's a higher risk weighting for wheat to move into that sort of bigger size vessels that Oakajee would seem to imply.

**MR CLAUSON (WAFF):** The converse to that unless you can sell wheat in

say - you know, if they're bringing in 100,000 deadweight tonne ships unless you can sell wheat in massive loads then all you're going to do is inconvenience the port rather than do anything else. But that's a situation that will evolve. We'll just have to see what happens.

**MS MacRAE:** I think just the last sort of questions that I would just like to ask you. To talk about the reliability of supply being an issue with buyers since the deregulation and that to some extent you've talked about the auction system at port might help with those thing and other changes that are happening in kind of a bedding down, I suppose, of the new arrangements. But do you see quality or the - a detrimental impact to the quality of Australian wheat and how it's seen internationally as a result of the changes that have been made to the marketing arrangements? If so, do you think there's things we need to do to rectify that?

**MR CLAUSON (WAFF):** Could I ask Kevin to answer that?

**MR JONES (WAFF):** Well, it's a hard one to give a definitive reply to because we only hear second and third-hand comments on it.

**MS MacRAE:** Yes.

**MR JONES (WAFF):** But I was on a machine the other day and a man in the grain industry has said that there's allegations that some of the wheat coming out of containers isn't up to expectations. Now, that might be the tip of the iceberg, it might not be, I don't know. But if you give any guy a free go, that will usually happen. So if you lift the restraints to the point where people will take that risk and sell one cargo and don't give a damn if the buyer comes back or not, we will pay as individual growers in future. That is one thing that the regulated system has afforded this country over the entire time it was in operation; there was a worldwide acceptance that wheat coming out of Australia was of pretty good quality. That's probably one of the challenges we've got to maintain in the future.

**MS MacRAE:** Do you think the market will sort that out or the extra - - -

**MR JONES (WAFF):** I can only go back to what Derek said in the first place. Your terms of reference here, quite simply, "The accreditation bulk wheat exporters to ensure they are fit and proper to export wheat from Australia," and that's what it's all about. Now, Wheat Exports Australia has to be possessed of resources to implement that requirement that the government is given. If they don't, we as producers will pay.

**MS MacRAE:** Earlier on, we heard from the people with associated classifications saying that they felt that there might be a role for a legislative requirement, I guess, that if someone was to deliver wheat, say, branded AWB and it turned out it wasn't,

that there should be some kind of penalty that be imposed in that instance to try and prevent this problem of poor quality wheat going out, not meeting the requirements and then it having a sort of contagion effect through Australian wheat in general. Is that something that you've thought about at all?

**MR JONES (WAFF):** Angela, I think that really comes back to the role that AQIS used to play. I vividly remember the instance of a grand final football match here in Western Australia. There was a cargo of wheat to go out. Some observant individual realised that he could tell the difference between cracked grain and whole grain. You know what happened. But anyway, there is a role for AQIS to play and to what extent that's going to be played out in the future in the changing environment that AQIS are finding themselves in, I don't know, but it's something I think the industry has to pay very close attention to because that is the point. We can determine whether somebody is pulling a fast one.

**MS MacRAE:** Was there anything else you wanted to raise, Wendy?

**DR CRAIK:** No, I think I'm right, thanks, Angela.

**MS MacRAE:** Is there anything else you wanted to say?

**MR CLAUSON (WAFF):** No, just thank you very much for the opportunity to speak to you and we wish you well in your determinations.

**MS MacRAE:** Thank you very much for your submission. Thank you also for taking that very important time out at this very important time of you, so we do appreciate it very much. That concludes today's scheduled proceedings. For the record, is there anyone who wants to say anything to the commission today? No. Okay, we will reconvene then tomorrow morning here at 9 o'clock. Thank you very much.

**MATTER ADJOURNED AT 1.22 PM UNTIL  
FRIDAY, 4 DECEMBER 2009**