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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 ADELAIDE ON MONDAY, 14 DECEMBER 2009, AT 10.03 AM

Continued from 11/12/09 in Sydney

INDEX

	<u>Page</u>
ABB GRAIN LTD: ASHLEY ROFF TIM KRAUSE	281-297
SOUTH AUSTRALIAN FARMERS FEDERATION - GRAINS INDUSTRY COMMITTEE: MICHAEL SCHAEFER JAMIE SMITH DAVID MALPAS DEANE CRABB	298-314

MS CRAIK: Welcome to the public hearings for the Productivity Commission's inquiry into wheat export marketing arrangements. My name is Wendy Craik. I'm the presiding commissioner of the inquiry and my fellow commissioner is Angela MacRae. The inquiry started in late September with a reference from the federal government into wheat export marketing arrangements and effectively covers the operation and effectiveness of those arrangements.

We have already talked to a range of organisations and individuals with an interest in the issues and we've got about 50 submissions coming into the inquiry after we put out an issues paper in mid-October. We're still accepting submissions, so that if anybody wishes to put in a submission we're willing to read it. Just bear in mind that the later the submission comes in the less easy it is for us to take into account. We're grateful for the people who are here today to front up to the inquiry.

The purpose of these hearings is to provide an opportunity for interested parties to discuss their submissions and their views on the public record, and following this hearing we'll be going to Port Lincoln this afternoon and we'll be having a public forum in Port Lincoln and that will be the end of our public hearings and public forums in this phase of the inquiry. From then we'll be working towards completing a draft report, which we intend to have out in mid-March. After that we'll invite further submissions and then we'll do another round of consultations after people have had a chance to actually read the report.

We like to conduct all hearings in a reasonably informal manner, but I remind participants that a full transcript is being taken and for these reasons comments from the floor can't be taken, but at the end of the day's proceedings I'll provide an opportunity for anyone who wishes to do so to make a brief presentation. Participants are not required to take an oath, but are required under the Productivity Commission Act to be truthful in their remarks. Participants are welcome to comment on issues raised in other submissions.

The transcript will be made available to participants and will be available from the commission's web site following the hearings. Copies may also be purchased using an order form available from staff here today. Submissions are also available and they're up on our web site. For any media representatives who are here today some general rules do apply, so please see one of our staff for a handout which explains the rules. I would like to welcome from ABB our first participants, Mr Ashley Roff and Mr Tim Krause. For the record, could you please identify yourself and your position, thank you.

MR ROFF (ABB): My name is Ashley Roff. I am the director legal, government relations and sustainability for Viterra.

MR KRAUSE (ABB): Tim Krause, general manager, transportation and logistics for Viterra.

MS CRAIK: Thank you. You may have a few introductory remarks you'd like to start with. Feel free to make those remarks and then we'll ask you some questions.

MR ROFF (ABB): Thank you, Madam Chair. May I welcome the Productivity Commission to Adelaide. When I opened up the Advertiser today there was a headline about it being "P" day here and I thought, "That must be the Productivity Commission," but unfortunately it was a couple of black-and-white rascals up the road at the zoo they were talking about. Nevertheless, we're very pleased to be here and thank you for the invitation to address the commission.

Our organisation has in the past had a number of names and you might be confused when you hear about SACBH, sometimes CBH, Ausbulk, ABB, the Barley Board, the board, and now Viterra. Viterra of course has recently acquired ABB Grain Ltd and its subsidiaries and, from the perspective of avoiding confusion today I'm going to call all our subsidiaries Viterra, which may not be technically correct, but in one sense it supports one of the propositions that we're going to make today, which is that the industry has come from a very agripolitical background and a lot of farmer ownership and cooperative principles.

We think we're in a new era now and I think that's probably symbolised by the fact that a leading agribusiness from North America has chosen to invest in Australia through the vehicle of ABB Grain Ltd. We think that really signals the start of a new era in the Australian industry and we think that our legislators and our politicians need to come to grips with that new era.

We appear before you today wearing two hats. The first hat is that we are a major user of export ports around Australia. We have a vital interest in the efficiency of the ports on the eastern seaboard, as we do the ports in Western Australia, and therefore we believe that we bring to this hearing today an objective view about the costs and the benefits of regulation, because they affect us in those states as well, obviously, as South Australia.

Our second hat is as a port operator in South Australia and obviously in that capacity we have a very strong influence in the supply chain in South Australia. We have noted the comments about regional monopolies and we believe that that is symbolic, again, of very much a political concept. It's a legacy of the death throes of the AWB single desk in Australia and those comments, we believe, are not based on the facts of the matter when you consider the history of our group, when you consider the economics of running a port terminal and the need to achieve throughput, particularly in South Australia and particularly given the

seasonality of our experience, particularly in the last decade, and particularly considering that it's unrealistic to believe that any organisation can purport to purchase the whole crop and run it through a dedicated supply chain, which is really what that term "regional monopoly" signifies. So we discount that expression and we discount people who believe that that's a realistic possibility.

In fact, yes, we are big and I suppose people would say, "Well, we expect you to be against regulation," but the fact of the matter is that size has served the South Australian agricultural industry very well in the past. An example of that is our investment of over \$5 million in plant breeding. Another example is our acceptance and leadership of the threat of climate change to South Australia and, again, our efforts in plant breeding are a response to that and we have other initiatives in the pipeline to address that threat.

Within South Australia the rail network is problematic and it's only because of the size of the Viterra group that we have been able to underwrite rail in South Australia so that we have sufficient rail assets to be able to handle the current harvest. Our group has achieved efficiencies within the supply chain, including the development of supersites, including the installation of fast rail outloading facilities at many of our sites and including the introduction of the National Grower Register card despite the opposition from a number of marketing bodies.

We have enjoyed in South Australia a relatively effective supply chain which has been marked by the availability of multiple ports, the geographical advantage of having short hauls from production areas to port, a reasonable rail system, the installation of road receival facilities at our ports and, more recently, the ability to boast two deepwater ports in South Australia. Those benefits have been achieved in the supply chain without regulation and our proposition is that, moving forward, we query what regulation adds to the aspirations of Viterra and to the aspirations of the grains industry in South Australia.

I turn now to more specific matters and the first of those is the future of Wheat Exports Australia and, noting that the Productivity Commission seems to be well stocked with economists, our assumption is that your interest is in primarily the costs and the benefits of regulation and, as your name suggests, trying to advance productivity in Australia. So what we've done is focus on the costs first and then look at the benefits.

The immediate cost of having a WEA from the point of view of participants or licence holders is the process of actually applying for and then renewing licences. I won't try and overstate that, except to say that it is a reasonably exhausting process, certainly initially, to apply for a licence. The renewal process is less onerous but still nevertheless something that we have to devote significant resources to achieving.

Since we have been a licence holder we have been subjected to one audit and, again, that's a significant tie-up in resources. As we noted in our submission, we also feel that we've been subjected to interference by the WEA in respect of matters which we don't believe are within their bailiwick and we believe that they have overextended their powers. I've noted those in our submission, so I don't propose to go into those in detail unless, Madam Commissioners, you want to do so later.

Finally, of course, there is a cost to the grower of running the WEA and that cost is expressed in cents per tonne. Our concern about some of the matters which we feel WEA has tried to overreach is that they will be looking not to contain themselves to their current charter but to reach out to other matters, so it is a concern of ours that the cost of running the WEA might well increase in the future.

When we turn to the benefits of the WEA, we can see that initially it potentially has been a comfort to the growers to think that there's a government organisation that's looking after their interests, but if you examine the reality of that, the growers have had the experience of dealing with other non-regulated commodities for many years - of more recent times there has been a deregulation of the barley market - and so the arguments about education and training, et cetera: yes, of course we can all do with more education and we can all do with more training, but the reality is that the growers, and the more successful growers, are well educated and well trained about the market. We struggle to see other benefits from WEA and we therefore conclude that the costs significantly outweigh the benefits of that organisation and it's our belief that continuation beyond 2010 is not warranted.

We'd like to now turn to the issue of port access arrangements and again trying to look at it in a structured way in terms of costs and benefits. The first cost we'd like to talk about is the cost to the integrity of the legal system, because we are quite concerned that the process of extracting voluntary undertakings from the bulk handlers was not in fact a voluntary process. The reality very much was that if Viterra wanted a licence to export wheat, it was required to give up an undertaking in a form which the ACCC thought appropriate. That is not the normal process under Part IIIA for the offering up of a voluntary undertaking and consequently, had we truly engaged in a voluntary process, the negotiating position would have been much more equal, and it wasn't.

The second point is that there is of course a process under Part IIIA of the Trade Practices Act for declarations of essential facilities. It has a number of protections to the provider of the facilities which we didn't appear to get the benefit of and it was with some interest that we noted the comments of the gentleman from the NCC earlier in your tour, when he said that really the concept of Part IIIA is that the holder of the facilities should be entitled to use those facilities for their own requirements and that Part IIIA really should be effective in terms of excess capacity

or, if there is limited excess capacity, then there is a mechanism to require additional capacity to be built.

To the contrary, the process that we endured meant that we take our place in the queue with every other exporter and, quite frankly, in terms of whether that is an intrusion on the property rights of our investors and our shareholders I think is a serious question. So we query the basis of imposing those undertakings. What's the ultimate cost of that? I think it's that one queries the laws of Australia when things like that happen and I think the second cost is the disincentive to invest. Investors require certainty and under the current regime there is no certainty because there is an ability for access seekers to question and arbitrate on essential terms and prices and, under those conditions, it would be unusual for an investor to commit to, for instance, the \$150 million that Viterra invested in the Outer Harbor grain terminal without the certainty of being able to calculate a reasonable return.

It's not only grain terminals that are affected by those disincentives to invest, it's also further up the supply chain, and I think Australia in general needs investment in rail and certainly there's more to do in terms of up-country receival sites to make them more efficient. However, in a regulated environment, investment is a difficult proposition. It's difficult for us, for instance, to go to our parent in Canada and make a case for new investment if we can't actually give them a spreadsheet which says, "These are the returns we'll generate from this new investment," because they will say, "Well, how do you know?"

The third cost of the port access arrangements are, of course, the direct costs and they are the legal costs and the ongoing administrative costs. The legal costs are not insignificant and I think we said in our submission they were well over half a million dollars to establish the port access undertaking. You might be tempted to say, "Well, that's a one-off cost," but it only goes for two years, so in another year we might well be up for another half a million dollars, et cetera.

The ongoing administrative costs relate to the fact that - I don't know whether Tim might comment or not, but we've had to engage a number of people to administer particularly the port loading protocols and our adherence to the port access undertaking because the last thing we want to do is to be in breach of those documents. So from a compliance point of view it's expensive for us to continue to monitor that.

The fourth leg of costs is what I will call indirect costs. They're not particularly visible, but they are things like lack of flexibility and inefficiency because we have been required to commit to, in particular, the port loading protocols, which have a number of provisions that, from our experience in the last two or three months, means that things that in the past we would have used our operating

discretion to resolve we can't resolve because these things are actually set in stone.

A good example, without mentioning names, is: we had a client who wanted to book 40,000 tonnes of a particular commodity and, when we calculated the capacity of the port, we realised that probably the maximum tonnage we could accept was 30,000 tonnes. It was at a time when we had 23 pending nominations on the shipping stem and under our port loading protocols we're required to get back to those people within two business days in order to give them a decision on whether we accept or don't accept their nomination for the shipping stem. We had to make a decision on whether we might go back to the 40,000-tonne nomination and say, "Look, if you accept some overtime, we can expand the notional capacity of the port," or look at other options with that person.

However, given the two business days, we realised that if we started negotiating with one we'd have to negotiate with others and that would delay the time in which we could go back to people and definitively say, "Yes, we accept your booking." So we were really forced to say, "Look, unfortunately we can't negotiate and we'll have to knock you off the stem because your capacity is over the theoretical capacity of the port."

We think that's probably a fair outcome looking generally, but from a practical point of view it doesn't make any sense because the 10,000 tonnes could have well been 1000 tonnes or 500 tonnes, and in the past we've managed to work out those issues, but at the moment we're living in a very inflexible world and we don't think that that promotes efficiency in the market.

So that's our sum of the costs of the port access undertakings. We then look at what the benefits are of having such a thing. Our conclusion, after looking at it and trying to work out where are the benefits, is that it's really - pardon the grammar, Madam Commissioners, but it's really to keep the bastards honest. I think that's what it boils down to. It's politically popular, but we would argue that it's not economically sound in the absence of any observed misbehaviour.

Our conclusions about the port access undertaking are that certainly the costs significantly outweigh the benefits and if, notwithstanding the lack of economic rigour in the argument about the benefits, people still wanted to keep the bastards honest, there are ways to do it without involving the good offices of the ACCC and without necessarily having an inflexible system to do that.

Our proposition is that a code of conduct for the port operators could well be an effective document, backed, as it would be, by section 46 of the Trade Practices Act, backed by the threat of division 2 Part IIIA of the Trade Practices Act that the facilities could be declared, and backed by the commercial threat that parties could in

fact bypass our facilities if our terms were unreasonable, and in our submission we pointed to the fact that we are aware in every sort of major grain exporting state in Australia there are people looking at bypass opportunities as we speak, so it's very much a possibility.

I'd now like to say a few words about Australian Bulk Alliance. Viterra owns a 50 per cent interest in Australian Bulk Alliance and the question was posed in your concepts paper about whether ABA should be required to provide a port access undertaking. We think that that is a misconceived proposition. The port access undertakings were intended to address concerns with vertically integrated organisations and the concern, as I understand it, was that somebody who was an active grain exporter who also owned, by itself or through its associated entity, a port facility could foreclose the opportunity for other exporters to export their wheat.

The reality is that ABA is not part of a vertically integrated chain. It is owned 50 per cent by Viterra, as I said, and also 50 per cent by the Sumitomo group and the reality is that ABA makes its own commercial decisions in its best interests, and indeed the board of ABA is obliged by the Corporations Act to do that very thing. It has to make decisions in the best interests of the company as a whole. It's not up to Viterra to tell ABA what it should put through the port, and indeed I think a good example of that is that I believe you were talking to Simon McNair in Melbourne and he mentioned that ABA has made a decision this year that it will only take wheat through its facility for efficiency reasons, which we respect, notwithstanding that Viterra is a major buyer of barley in the ABA catchment area; so an example of an independent decision that doesn't necessarily suit the commercial interests of one of the shareholders.

In addition to the structure of ABA, of course, the situation of ABA is that it's possibly part- of the most competitive situation in Australia in terms of its competition with Geelong, so it very much has to be conscious about the way it operates and the terms it sets. So in that case the costs of any new regulation for a small company like ABA - and I think Simon possibly alluded to the fact of a not very profitable company due to some recent seasons - would certainly far outweigh the benefits of any regulation.

Madam Commissioners, that's all that I proposed to say, on the assumption that you might well have some questions and we didn't want to take up question time with our presentation. Thank you.

DR CRAIK: Thanks very much for your submission and for those comments. Perhaps if I could start and just ask what percentage of the South Australian crop does ABB actually market and then what percentage do you put through your ports as a bulk handler?

MR KRAUSE (ABB): I can answer that one. ABB would probably do around 50 per cent or just over 50 per cent of the export task. There's also a domestic market in South Australia. I'm not sure what ABB's share of it is but, of all market paths, probably ABB is around 50 per cent or just below.

DR CRAIK: I presume you're talking about the trading arm there in terms of actually exporting, if you include what other traders are exporting.

MR KRAUSE (ABB): In terms of export, percentagewise we'd probably do in excess of 90 per cent. There would be tonnage that goes in containers out of South Australia or back through Melbourne and there's also potential for grain to move across the border into the GrainCorp system as well, depending on the supply chain costs.

DR CRAIK: How much do you operate in other states? Do you have a big presence in the other states?

MR KRAUSE (ABB): It's quite significant. I'm not the right person to ask, but I would suggest that 50 per cent of our trading business might be outside of the state.

DR CRAIK: Okay, as high as that.

MR ROFF (ABB): And I think prior to the deregulation of the wheat industry we were probably the second-largest purchaser of wheat in Australia.

DR CRAIK: Okay. Good. One of the issues - and I guess you have alluded to it in some of your remarks and in your submission - that has been raised in a number of submissions by both traders and individual farmers is the concern of dealing with a vertically integrated organisation and the fact that the bulk handling arm of the organisation has information about the total stocks in its storage and in its transport system, which includes both its stocks and those held by other traders, and that information on that then can be or is passed to the marketing arm of your organisation, which then gives it an advantage over other organisations. As a consequence, some have suggested - and this is for an information issue, not an access issue - that ring fencing would be desirable. In fact, we understand that CBH have voluntarily put in place ring fencing between the bulk handling and the marketing arm. Can I have your reaction to that proposal.

MR ROFF (ABB): Can I just correct you on one thing.

DR CRAIK: Sure.

MR ROFF (ABB): I think CBH put in ring fencing because they were required as a condition of - - -

DR CRAIK: Of the notification.

MR ROFF (ABB): Of Grain Express.

DR CRAIK: Oh, okay. I understood it was voluntary, but I'm happy to be corrected.

MS MacRAE: It's called "voluntary" I think, but it was a requirement of that notification, so it was all a bit - it's a bit like the voluntary access undertaking. It's that same thing.

DR CRAIK: Yes.

MR ROFF (ABB): I think that's right.

DR CRAIK: Un-voluntary.

MR ROFF (ABB): Yes. I think there's a lot of material that suggests that ring fencing is rarely effective, but not only that, it seems to me that people don't perceive it to be effective. Even if it was effective, the perception of people is, "Oh, you can put in place this and you can put in place that, but really you're going to be doing something to get around that." Ring fencing is quite an expensive thing to undertake. I think in CBH's case they actually house themselves in different buildings. There's a lot of work to be done on systems to do it, and again we just believe that the costs of doing something like that, which will ultimately be passed on to the growers, don't achieve the benefits either in fact or in perception.

DR CRAIK: Do you have an indication of what it would be likely to cost, or the value of benefits of being vertically integrated on the other hand?

MR ROFF (ABB): My guess is the costs would be in excess of \$2 million. Unfortunately, any time you start getting involved in systems it gets expensive. And we struggle to see the benefits. Quite frankly, the liberalisation of the wheat industry and the disclosure requirements under WEMA have brought a significant amount of information to grain exporters. The shipping stem alone I think has brought a tremendous amount of knowledge, not only of what ships are waiting but also you can extrapolate from that information who's buying what and what the interest is, et cetera. There's a lot of other information out there and we think the push for further information is really only going to be marginally more beneficial to people. I think they're getting the crucial information at the moment.

DR CRAIK: Okay.

MS MacRAE: And if we were to move to a code of conduct such as you're suggesting, rather than having the formal access undertakings, do you see that that same information base would be made available through a code of conduct?

MR ROFF (ABB): Yes.

MS MacRAE: Because you were saying in your opening comments that the negotiating power under a code of conduct would be more equal, in your view.

MR ROFF (ABB): Yes.

MS MacRAE: And as a result of that I guess you'd have more say over what would be part of that.

MR ROFF (ABB): Yes.

MS MacRAE: So would you be confident that that information would still be made available?

MR ROFF (ABB): Yes. We think that it's beneficial to the industry to have that information and we would certainly support that.

DR CRAIK: If you had a code of conduct, what wouldn't you put in it that you currently have to in the access undertaking? I notice the example you gave about the flexibility under the access undertaking, which related to your port operational protocols, but you do suggest in your submission that one of the benefits of the access undertaking is the port operational protocols, so it would suggest you might have them in a code of conduct as well.

MR ROFF (ABB): We would certainly agree that there should be port loading protocols. We would probably, based on our experience, amend them so that there's more flexibility, but nevertheless to certainly support that concept that people have a right to know how we're going to actually administer that regime. So we don't have any problems with that.

Certainly one of the issues we have under the existing port access undertaking is the ability of the ACCC to act as arbitrator. We believe that it represents a significant conflict of interest for an organisation that it has to act as regulator and then suddenly to throw off the regulator's hat and put on a hat saying, "I am an independent arbitrator. I will approach this arbitration with an open mind and

without all the dogma of the current government of the day and our personal views about competition." It's a little bit of a stretch, I would have to say.

MS MacRAE: I guess even if you went to a code of conduct, that would include a dispute resolution sort of mechanism. Who would you like to see arbitrating in those cases where you did have disputes if it wasn't the ACCC?

MR ROFF (ABB): That's a good question. I think we would have to think hard about that and, quite frankly, we would explore that with the rest of the industry to see if there was an appropriate mechanism that people had confidence in. I know that GTA has been suggested as a possible body to do that. We're somewhat concerned because most of the membership of GTA tend to be access seekers, so we'd need some comfort that whoever was going to do the arbitration would have a balanced view about the outcome. GTA is one possible organisation and if that was to be the case, as I said, we'd need to work out how that would work in practice, but primarily our requirement would be for somebody who was independent and came to the dispute with an open mind.

MS MacRAE: Just in relation to access, we're hearing that under the deregulated environment there's more congestion at ports because there's a desire now to move the crop out of the ports probably over a shorter period than might have been the case previously, so rather than kind of make it even over 12 months, there's much more of a push to move it more quickly. CBH are addressing that through an auction-type system and I note some comments in your submission that it's not supportive of an auction-type arrangement. I wonder if you could just elaborate on that a bit.

MR KRAUSE (ABB): Yes. I think one and a half seasons into a deregulated market last year, we saw the demand for export and use of terminal facilities to be very front-ended, meaning that the marketers had a desire to get grain out into the market in the first half of the year. This year we've actually seen the opposite, where our November, December and forecast January shipping is very low, and I think what we're seeing is that the demand for shipping is driven by actual markets rather than a need to get supply chain efficiencies, use terminals effectively or whatever.

In our circumstance we've managed to a base capacity and, as we've taken bookings for placement on the shipping stem, we've worked up to that base capacity. As we've reached that, we've investigated ways of increasing those capacities, and there could be a number of constraints along the supply chain that are limiting that capacity, and more recently we offered excess capacity to the market at a cost that we can achieve that excess capacity and marketers are able to come back and, if they choose to take up that offer of excess capacity or that surge capacity, they can.

DR CRAIK: So basically you're a first come, first served approach.

MR KRAUSE (ABB): Correct.

DR CRAIK: And then for excess capacity you charge more, presumably.

MR KRAUSE (ABB): Correct.

MS MacRAE: I'm just interested in how you see the benefits of that sort of system over an auction-type system.

MR ROFF (ABB): I think it's much more readily understandable. I think everyone understands, yes, first come, first served. It's quite transparent because of the daily publication of the shipping stem. We are transparent in the costs, so people know that they have to pay a booking fee. We've spelt out the rules about when that's refundable and when it isn't refundable.

Some of the things that we worry about with the auction system is that the costs of running the auction and a rebate system are quite difficult to understand, and therefore you can't be certain about your costs, and therefore you can't be certain about what price you're going to offer for a load of wheat. But on the other hand it does seem to benefit those vehicles like pools, where the cost of that is ultimately borne by the growers, so not the buyer of the grain.

MS MacRAE: I wasn't sure about that reference to benefiting pools, but now I understand. Thanks.

DR CRAIK: In the South Australian Farmers Federation submission they say, "ABB prices third party bulk handler throughput rates through its ports at rates that make the use of any up-country competing storage options outside of" your supply chain "untenable." Basically, your storage and handling agreement "is structured in a way to ensure that third party storage providers cannot compete with" your assets "nor provide any competitive logistical services to bring grain to port."

MR ROFF (ABB): That demonstrates the free-rider approach; that what these people want to do is buy grain at non-Viterra sites and then just take it straight through the port without a cost. The reality of the throughput charge is that there is a cost. There are services that we provide and we are required to provide them because we commingle the grain at port. They include the testing, sampling, weighing, use of rail loaders, use of information systems, profit margin risk. Those things have a cost and our throughput charges have been struck on the basis of what we believe the costs of those services are. We've had an arbitration on that particular subject and the arbitrator has upheld our costing system.

DR CRAIK: Is that since 1 October, or prior to that?

MR ROFF (ABB): That was prior to that.

DR CRAIK: Since the single desk has gone, or prior to that?

MR ROFF (ABB): Prior to that, but at the time when we were subject to a section 87B undertaking to the ACCC because of the merger of Ausbulk and ABB Grain in 2004.

MS MacRAE: Could I just ask something about WEA. I understand that you see problems with the process. Can I just ask from your point of view how transparent that process is. Obviously you provide an awful lot of information for that process. Do you really have a good sense of what's done with that information and why it's requested and, if you have subsequent queries and things, what happens in that process?

MR ROFF (ABB): Our perception is that they're wonderful folk at the WEA and our relationship with them has been very good. They have been very open with us. If they're going to do something, they tell us what they're doing and why they're doing it. We would say that they've been an effective organisation in terms of their charter. We've had no problems with the WEA. We just say that beyond 2010 perhaps the charter has become redundant.

MS MacRAE: One of the things that you talk about in your submission is implementing this enterprise risk management system for the whole of your business and that just sounds on the face of it to be something that would be very costly to you.

MR ROFF (ABB): Yes.

MS MacRAE: Do you have an estimate of what sort of cost would be involved for that?

MR ROFF (ABB): That would be, I would say, around \$10 million.

MS MacRAE: I've got a question that might be a bit esoteric, but at one of our other forums we heard about this National Growers Register card and I just wondered if you could tell me a bit more about that. What does it do? What's the value of it to you? One of the things that was suggested to us was that, if we decided that we needed more information, it could be used in an information collection sort of role. And, given it's called "national", I'd be interested to know how national it is or whether it's only ABB.

MR ROFF (ABB): Could I firstly declare an interest, because I am the chairman of National Grower Register Pty Ltd that provides those registry services, so I'm very happy to talk to you about them. From a national perspective, the system is used all over Australia, with the exception of Western Australia. At the point of inception of National Grower Register, AWB and CBH withdrew from the scheme. Subsequently AWB is now accepting the NGR card at its GrainFlow sites, so the coverage is extensive. Western Australia: CBH is considering the use of the card, but right at the moment we have to have a linking system whereby growers who deliver still use a CBH delivery card but it's linked to a National Grower Register card, which works, but it's not as ideal as we would like. National Grower Register has been, I think, a wonderful success story for the industry in terms of openness, transparency and cooperation.

MS MacRAE: So how old is it? When was it instituted?

MR ROFF (ABB): It was introduced in 2002, from memory. Don't quote me.

MS MacRAE: Roughly that.

MR ROFF (ABB): Yes.

MS MacRAE: That's good enough.

MR ROFF (ABB): From 2002. The key benefit of the National Grower Register card is, at the time of its introduction there were a number of delivery cards around, so, effectively, every trader has to maintain a registration system so that when a grower came in and said, "I want to sell my wheat to Glencore," Glencore would get basically a number and the name of the grower and they would have to work out who he was, where he lived, how they'd pay him, what were the payment splits, was he in a partnership, et cetera. So if we have 70 marketers, say, at the moment, potentially we might have 70 marketers, each maintaining their own registration database. The industry recognised that that didn't seem to be very sensible and that maybe grower registration wasn't an area where we should compete but actually get together and have one register. NGR is in fact owned 50 per cent by Viterra and 50 per cent by GrainCorp, but it's been run on, dare I say it, sort of industry-good grounds to provide that service. It's an efficiency story because it's made the delivery process a lot more efficient.

The benefit of NGR into the future is that it has a tremendous database of grower details and NGR itself is looking to see whether there are potential opportunities to go into things like end point royalties, farm traceability, those sort of issues, because surveys have disclosed that NGR is the most trusted recipient of

grower information in Australia. There is certainly potential for other applications of NGR.

MS MacRAE: Who actually has access to the database?

MR ROFF (ABB): We're conscious of privacy principles, so if I'm a trader I can access that database for all the people that choose to give me an NGR card number, but I can't go and look at anyone else's. In other words, I can get the information on my customers but I can't get the information on anyone else's customers unless they also deal with me, so the data is protected.

MS MacRAE: And the growers seemed to love it at this meeting we were at, but is that the general view? Is it well thought of throughout the industry?

MR ROFF (ABB): The growers love it and the traders love it.

MS MacRAE: Okay, they do. You said something about there being a bit of resistance initially.

MR ROFF (ABB): Yes. I think some elements of self-interest intruded on the decision at the 12th hour, but I think NGR has proved itself in terms of its operation and, as I say, the growers find it very easy to deal with the NGR. If they want to change their details they only have to go to one organisation, except the unfortunate people in Western Australia, who don't have that benefit, but it's very popular. The traders find it great because they don't have the cost of trying to maintain a database.

MS MacRAE: Okay. Thanks for that.

DR CRAIK: Just going back to the discussion about access and the access undertaking and your suggestion about a voluntary code of conduct with all the bulk handling companies: you've mentioned the ACCC as arbitrator and the suggestion that, if it weren't an access undertaking, you'd prefer to have some other arbitrator and, I guess, a bit more flexibility in the resolution of port operating protocols. What would the other major differences be between an access undertaking and a code of conduct? Why would it be so much more attractive to you than the access undertaking? You've listed a lot of things that you think are benefits under the access undertaking that you would retain in a form of industry self-regulation, so I'm trying to get a good handle on what the differences would be that would make it so much more attractive to you than an access undertaking.

MR ROFF (ABB): I think, certainly from an investment perception point of view, people don't view industry codes of conduct as regulation, whereas the current port access undertaking that we have would be regarded by investors as regulation. So

that's a benefit. But you're correct in saying that we believe that the process has introduced a degree of professionalism into the process of seeking access. We'd be the first to say that we've benefited from the ACCC's experience in that area and we think that there are good and clear processes that we've committed to that we think are beneficial and we would certainly retain them.

DR CRAIK: I guess the fear of other traders would be that it would be more difficult to get space at a time that they wanted.

MR ROFF (ABB): Sorry, I don't understand that.

DR CRAIK: Would be able to export their crop, their stock, at the time that they wanted. You know, get capacity - - -

MS MacRAE: Things like your port protocols - - -

DR CRAIK: Yes, the port protocols.

MS MacRAE: - - - might be more your way, if I can describe it that way.

DR CRAIK: Yes.

MR KRAUSE (ABB): I think it should be kept in mind that our own trading arm only does a portion of the export out of South Australia. We have a very large customer base that performs a fairly significant task and we're actually trying to find the right balance for all our customers. I think that's what the shipping protocols and the shipping stem have actually done. It's allowed all marketers to actually work out how they can book space on the stem. It's open, it's transparent and it's the same for everyone.

DR CRAIK: I guess the concern would be, if it wasn't a formal access undertaking, that that mightn't apply so rigorously. That might be the fear.

MR ROFF (ABB): Yes. I think we would say, "Well, judge us by what we've done, not only what we say." What a voluntary industry code does is create a standard that one has to aspire to and if we don't achieve those standards it's a very clear benchmark for people, if they're so disposed, to go to the government and say, "Look, these people are misbehaving and we think it's time for this service to be declared." But, as I said, it provides a benchmark. It's quite common in many other industries. We've managed to operate without regulation for many other commodities, including for a long time pulses and oats and more recently barley - canola of course - so we say, "Well, what's so magical about wheat? Why does it need special protection?"

DR CRAIK: I've just got one other question. One issue that the exporters have raised with us is that of risk sharing - they've raised this as a general issue - with the bulk handling companies. They perceive that the exporters, traders, wear the downside and you wear the upside and they talk about the limits that you've placed on your liability in relation to something going wrong with a load of wheat and again in transport. Do you have any comment on that?

MR ROFF (ABB): I think the reality is the services we provide have been priced based on that limitation of risk. Is it possible to increase that limit? Potentially, either at a significantly increased cost or potentially by transferring that risk to an insurer, but it's quite a complicated area and one of the difficulties is that sometimes one gets market claims - ie, claims from a customer of our customer - and the claims are not necessarily based on facts but more political issues like, "It doesn't actually suit us to receive that cargo, so we're going to make sure that we find a problem with the cargo," and therefore, you know, bad luck, and then our customer seeks to transfer that back to us and it gets quite complicated.

It's quite a complicated area and we've had many years of discussions with the AWB, when it held the single desk, about those topics, and could never quite come to a fair agreement on that. We had a number of discussions about sharing demurrage and dispatch, and again it's a really complicated area. Not to say that it might not happen in the future, not to say that we might not be able to find an insurance underwriter that would be willing to accept that risk, but insurers are very loath to accept contractual risk.

MS MacRAE: As far as you know, are those arrangements different to the rest of the world? Just talking about demurrage and dispatch, it seemed like when we were speaking to the grain exporters, they were suggesting that the way that that risk is shared in Australia is quite different to the way it's done in the rest of the world. Do you know? Do you have any comment on that?

MR ROFF (ABB): No, I can't comment on that.

DR CRAIK: Okay. I think we've well and truly used up our time. Thank you very much. Thanks for coming along today. Thanks for your presentation and thanks for answering questions.

MR ROFF (ABB): Pleasure.

DR CRAIK: Now, slightly belatedly, we'll move to the South Australian Farmers Federation. Today, I understand, we're having a number of people from South Australian Farmers: Michael Schaefer, Jamie Smith, David Malpas and Deane Crabb. Thanks very much for coming along today. If you could start by introducing yourselves and stating your position for the official record, and then I'd invite you to make some introductory remarks, if you'd like, before we turn to questions. Over to you. Thank you.

MR SCHAEFER (SAFF): No worries. Thank you, Wendy. Michael Schaefer: I'm the chairman of the South Australian Grain Committee and a farmer from Buckleboo on Eyre Peninsula. This is Jamie Smith, who's on our committee, a farmer from Maitland on the Yorke Peninsula; David Malpas, who's a farmer from Lucindale in the South-East; and our executive officer, Deane Crabb.

Firstly, I'd like to thank the Productivity Commission for coming to South Australia for this inquiry into the wheat market and deregulation. I'd also like to thank the minister and the government for deregulating wheat. I think it's been a very healthy progression for Australian agriculture, and it took far too long to get there. One of the things that concerns us - and I note that it's out of your area, but I'd like to make a comment on the public record - is that I think this shouldn't be limited to just wheat, it should be to all grains, because all grains are affected not by the legislation of the federal government so much as by the fact that we have such a dominant player in South Australia in the handling and loading of grains.

We have a position that there is no need for the WEA to go through the trade and tick the box to say whether they should be able to export grain, but we do have a position where any business that has a dominant position in the marketplace for the handling and loading of that grain and storage of it in a particular zone must go through some form of regulatory process in the absence of the market being able to do it themselves, because the market is unable to function in the way it should when you have such a massively dominant player. And I would put that there are three zones in Australia and CBH dominate the West, Viterra dominate South Australia, and GrainCorp have a less dominant position but, nevertheless, it's still a very strong position in the eastern states.

So that is our position: that the function of making the bulk handlers, whoever they are, go through this sort of process I think needs to be strengthened and encouraged, but the WEA, who are funded by the growers, it would be good if that disappeared so it was another levy we didn't have to pay, and really I think it's a federal government issue. They should be making sure that the trade is able to flourish, and part of their core business as the government. If they don't want to do that, then they need to bust the monopolies up.

The other position that we see that may have a place for ASIC or the Productivity Commission or someone is the financial services in regard to pools, because I think there is a very large degree of risk. Unfortunately, I don't believe a lot of growers understand how much risk is attached to pools. Which gets us really to the crux of our issues with the supply chain in our state. It's not so much about the wheat deregulation; it's about the supply chain. That's why we think that other grains should come into it.

But as far as wheat goes, the risk is due to particularly growers not having the information. It would be helpful also if the trade had more information, but growers are the most at risk because they have the least ability to gather information, particularly in regard to information flow on stocks - for example, stack averages, port zone tonnages, the grain type and quality - because we've had a lot of fear and loathing happening over the radio over the last fortnight with regard to rain and rain-damaged grain. How bad is that? We don't know. There's only one group of people in this state that actually knows how much badly damaged grain there is and where it is and that adds risk to the marketplace. We don't view that that is an acceptable outcome in a market that is supposed to be freeing-up, if you will.

The other one is the shipping stem. I think that at least CBH has made an attempt. They have talked to the trade and tried to get an outcome that is acceptable. There may be some things that need ironing out in that, but the problem in our state is that the trade have to put up \$5 a tonne to book a ship. ABB or Viterra would argue they have to do the same, but if they are putting up \$5 a tonne it's the left hand paying the right hand. There is no money for their business at risk. And if they want to pursue that model, we would argue that there should be an escrow account and not one run by the UN - an escrow account put up so that everybody pays the \$5 a tonne and everybody wins or loses that money if somebody doesn't take a ship, because at one point Viterra or ABB - I'm not sure what name they're running under; that part - had about 88 per cent of the shipping stem.

If they had their own money actually up for risk, we may see the shipping stem operating in a different manner and, if it didn't, bully for them for taking the risk; that's fine. But at the moment I think that there is a large discrepancy between a company like Cargills or AWB putting up a quarter of a million dollars for a 50,000-tonne vessel and ABB-Viterra putting a quarter of a million dollars up, because AWB and Cargill can lose theirs, or whatever happens, whereas there is no risk for ABB.

I think we've seen that recently. A particular trader has taken a boat off for late December because they couldn't acquire the grain. I think they had a part-vessel. I don't know all the information and some of this is summation because we aren't allowed to know the information; this is another problem with the whole set-up. But

the boat was lost. Subsequently we've seen prices come off by approximately \$10 a tonne.

We understand that there is a need for the storage-and-handler to know what is going to be loaded and all those things, but rather than shut off a trader and say, "You cannot have that vessel," "By a certain date we are only loading X amount of tonnes on that boat." The trade then have the ability to acquire that grain and if that's paying more money for it, so be it. If it's loading a 50,000-tonne vessel with 25,000 tonnes, well, the trade wear that risk, but at the moment the grower is the one that's lost out because we're getting \$10 a tonne less for OPW than we were two weeks ago when there was a bit of a panic on for getting these boats loaded.

Whatever happens with the stem and the supply chain, there needs to be some serious competitive tension in it, because the grower pays all the time. At the end of the day that's where everything comes back to. Any risk that anyone incurs, the grower wears it, because if the trade is incurring risk because they have to leave money on the table to pay for non-discretionary charges, that means that that money is not available to be paid for actual grain, and if ABB or Viterra has issues and has to increase the charges because their risk has gone up, no-one else wears it but the grower. So in the deliberations I hope that the Productivity Commission take that into account.

I think in the main deregulation has worked very well, because for two years in a row now - and coincidentally we've only had two years of deregulation - Australia has had at some periods, quite lengthy periods, the most expensive wheat in the world. That's got to be a good thing for the growers.

I'm not often in agreement with ABB or Viterra, as many people in this room probably know, but I do agree ring fencing is completely ineffective. I think that it would be a complete waste of time. They have to work out a far better way than that. I'm not in favour of a code of conduct in this position, simply because of such a dominant place that the storage and handling operation holds in our state. I am not in favour of regulation if we can help it, but codes of conduct work very well when everybody has an equal position in the marketplace. To my mind it's a bit like having the rooster in charge of the henhouse. He might be a very good rooster, but there may be a point in time when he gets a bit hungry.

So I think that with that, talking about risk - particularly the information flows and the shipping stem - the end result is: greater risk and uncertainty in the marketplace means growers will get less for their grain and, as I said right at the start, I think that the federal government need to have these port protocols and supply chain management expanded to all grains.

Just in conclusion of what I've got to say before the questions and things like that: I am an agent for Glencore but I have no ability to influence any of their decisions in the marketplace. All I am is an agent to procure grain. Unfortunately, I haven't been able to do a lot of that, because other people are more competitive, but that's a good thing. But first and foremost, amidst a lot of slurs upon me, I am a grain grower. My interest has always been in grain growing, and I'm not sure whether you have the barley marketing review that was handed down in 2006 which led to the deregulation of barley in this state. I was on that, well before I was an agent for Glencore, and you'll find that there's a lot of those things we are still arguing for.

I've been arguing for deregulation for about 12 years now, when it was very much a pariah position to take, so I consider that I've been very consistent in my line towards the grain market and trade, particularly in South Australia. The area that I come from is Eyre Peninsula. We are isolated from any domestic market pressures that may put some competition on the export market. My port is Port Lincoln; I'm about 260 kilometres from that port. The supply chain over there this year has been fantastic, with a very big harvest on Eyre Peninsula. I think that Viterra has done a terrific job in getting that grain into the system, albeit with a few hiccups maybe at Port Lincoln, but I think sometimes in a big harvest they're unavoidable. My major concern and that of our grain committee is that we want as much risk as possible to be reduced in the exporting of grain. That would be a terrific outcome. Thanks.

DR CRAIK: Thanks very much for those comments. Can we just go back. You mentioned this business of the booking fee of \$5 a tonne and your preferred arrangement rather than what happens now. I didn't quite understand. You set up an escrow account and then everybody wins or everybody loses. I didn't quite follow that.

MR SCHAEFER (SAFF): In Western Australia you're aware of their system.

DR CRAIK: Auction, yes.

MR SCHAEFER (SAFF): And I'm not sure that everybody is entirely happy with that, but CBH did go to the trade and discuss how it could work better and all those types of things. I'm not sure that there was a lot of discussion with the trade in South Australia on how it could work better. Certainly there was no discussion with the growers to see how we thought it should work together. Whether they have gone to the Grain Industry Association of South Australia and had discussions, or the Australian Grain Exporters Association - I can't answer for them.

But the problem with the system in South Australia, as we see it from a grain grower's perspective, is that the \$5 a tonne that any trader, licensed exporter, pays for

a boat goes to ABB or Viterra. They argue that some wing or other of their business pays that \$5. It's not really any risk, is it?

It might look bad for the punter that's operating the particular business that has to front up with the \$5 and they lose it, but Viterra haven't lost any money, whereas any of the other trade, no matter what happens, that money is at risk and if they alter the ship or alter the cargo or do any of these types of things, that money is at risk. We argue that that is an impediment on the grower because of the increased risk that they have to take on. They're going to be far more careful about what they do. I think that there needs to be demurrage/dispatch, because it operates in the rest of the world. I can't see why it can't happen here.

In regard to the trade, say they have to load a boat on 10 January. If the tonnage isn't there by 25 December, well, that's all the tonnage they get to load. I think that's probably a bit long a time, but at the end of the day if the boat goes out half-empty, the only person that that really hurts is the trader that hasn't loaded the boat. There should be a maximum amount of time available for that trader to buy grain off of either the grower or the rest of the trade to fill his boat, because that competition is going to make the price of grain greater.

DR CRAIK: So you're saying right now they can't ship, say, half a proposed shipment.

MR SCHAEFER (SAFF): No. The boat is disallowed. They just lose the boat.

DR CRAIK: They ship nothing.

MR SCHAEFER (SAFF): Yes, and I don't think that's an effective position to take. One would argue that it was very difficult to book a slot, partly because of the fees that are in place. There is a discouragement from the storage-and-handler to book early booking fees, whereas in Western Australia it's almost the other way around. All of those things come into account.

The other thing is, when most of the slots are booked out by the storage-and-handler quite early, it's very difficult to get a slot when it's booked. That's perhaps where the auction system comes in. And where I came from with the \$5 fee and the escrow account is: if the booking fee was handled by a separate company, all of those businesses then are at the same risk for losing the money. At the moment there is one business that is not at risk from losing any money for a booking slot.

DR CRAIK: Who would the money go to?

MR SCHAEFER (SAFF): The Michael Schaefer Benefit Fund would be a good place to start!

MS MacRAE: The CBH return it to - - -

MR SCHAEFER (SAFF): Yes, I think - - -

MS MacRAE: A system to return it to - - -

MR SCHAEFER (SAFF): Yes. It's an escrow account and if you don't take a slot or - you know. There needs to be a handling fee. We have no dispute with that. I think in Western Australia's case it's \$3 a tonne. But it needs to be separated out and it could be going into infrastructure, because heaven knows, right across the state we need better roads, better rail, all sorts of things.

DR CRAIK: Okay. Thanks.

MS MacRAE: Did you want to say something to start, Jamie?

MR SMITH (SAFF): Yes. Thank you very much. We'll paraphrase, because Michael has actually covered a lot of the issues pretty well I think, and whilst there's been a long dialogue about some of the concerns of growers I've got to say that the relationship between growers and Viterra has moved a long way since the takeover, if you like, of Viterra. However, I still have a particularly ominous feeling about the submission that we heard before from Viterra, in some of the statements that were made.

The reality is - let us be under no illusions - that a regional monopoly does exist in South Australia in the supply chain. Talking about the wider business interests of Viterra across Australia doesn't discount the fact - and Ashley talked about discounting people that say that - that there is a natural regional monopoly in South Australia. Let's look at some of the reasons why.

The statements from Viterra themselves: they execute 90 per cent of the export grain; they have a 50 per cent market share in the trading ability. Some of the comments that Michael has just made about the shipping stem being not autonomous and being dominated and run by the monopoly export handler: information flows are held within that company, not available to the rest of the trade, not available to the growers, and it is arguable and clearly demonstrated that no Chinese wall exists between the trading arm and the bulk handling arm; therefore that information flows freely but it does not flow to the rest of the participants in the trade.

The unacceptable risk that is borne by the rest of the trade in some of the

logistical operations and some of the costs: the reality is that those costs can be put onto the trader and they have no ability to question those costs. There's no real competitive tension in the marketplace, and what it's shown is that the way those costs are come up with is that they are derived from a cost-plus calculation, or investment decisions are made on the fact of whether a monopoly rent, if you like, can be extracted. There is no competitive tension in the market that in normal marketplaces have price discovery. Price discovery is coming in reverse, so it is not in fact coming from a competitive market, it is coming from a monopoly deciding on cost-plus. Some of the comments around the cost of regulation and oversight: the cost to the Viterra business, when in fact WA is funded by growers and is an oversight body; so they are talking about also the cost of compliance with that regulation as actually being a cost to their business.

The other reality is that in South Australia it is very unlikely, due to the geographical nature and the current dominance of the port zones by Viterra, that any alternative export market path will develop in the short term. It is highly unlikely. So, with all those things in place, in the absence of direct competition and in the absence of any regulatory oversight, I just have one question. In Ashley's words: will the bastards keep the bastards honest?

DR CRAIK: Okay. Thanks.

MS MacRAE: We'll move off access just for a moment. You're saying you're very happy for WEA not to accredit any more and that's quite a different view to some of the other grower organisations that we've heard from. From our point of view, I guess we see there's no actual guarantee there anyway at the end of the day. Is that the main thing? Are you happy to do your own kind of assessment checks of these bodies? Some of the counter-arguments seem to be that it's hard to do these things and it's costly for individuals to do it and that it's somehow more useful for a government body to do it. I just wonder if you could elaborate a little bit more on how you see that question.

MR SCHAEFER (SAFF): We agree with what you're saying, basically. I think that WEA can't guarantee that a business is not going to go broke and I think we've had two years of this. Our view is that if a price is too good to be true, it is too good to be true and you'd be very, very wary of how much grain you sell to that business. In my view - and this is only my view; I don't want to get sued so I'll try and be very careful about this - there are top-tier traders and there are secondary tier traders, third tier, four tier, and I think that, unless you are completely incompetent, you should be able to work out where a business is on that table and you would sell your grain in the corresponding lumps to those tiers, so that a top-tier business you would be quite happy to sell in lumps of 500,000, 2000 tonnes; a secondary tier you might sell in 100 to 250 tonnes; a third tier, 50 to 75; fourth, 25 tonnes, because it is about risk.

One of the problems that the single desk did was it took away the responsibility for that risk - a risk assessment and understanding of risk - because I think it would be a very awful position to be in now at the moment if we only had one business to sell our grain through after the global financial crisis. That seems to be the reason for the WEA setting up - was to mitigate that risk. I think the trade has shown over two very turbulent years that they are there to play the game, so that's why we don't think it needs to be there for accreditation. Whether it is there and the only job they do is to monitor the bulk handlers and port, that is an argument that can be had. I'm sure there is a more efficient way of doing it. The ACCC has participated. We would be more than comfortable for them to continue to do it. Also, they are funded by the government and that means it's another levy that can be taken off the very burdensome levy that is being applied to growers at the moment.

DR CRAIK: Are you happy with the level of competition of traders at the moment?

MR SCHAEFER (SAFF): I'm happy with the amount of people that seem to want to buy and export Australian grain and, in this case, wheat. I'm not happy with the impediments that are put in place to prevent the grower from getting the maximum amount of money through the impediments in the supply chain. I think that's what we need to focus on. As I said earlier, we came to that decision when we did the barley review and, unfortunately, in Australia we've got too many levels of government and everyone wants to pass the buck on whose responsibility it is.

The state government wouldn't do anything because it was only barley in this state and, I agree, it should be right across the board: all grains should be subjected to information flows and things like that, because that's absolutely critical for the trade, yes, but really for the grower it's absolutely paramount to understand, because we do not have the ability to work out how much grain is being grown. We can take ABARE's or PIRSA's guesses, but they are guesses. The government have absolutely chopped PIRSA to pieces. Their ability to deliver accurate information is seriously impeded by the government cuts to that.

I'm sure that the bigger traders all spend a lot of time trying to work out what grain is grown where and what type of quality it is, and all that, but they shouldn't have to do that, because that's all cost. If that cost is being put into trying to gather that information, it's not going to be there to buy our grain, and growers don't have the ability or the understanding to work out what's going on.

DR CRAIK: So who do you think should collect that information?

MR SCHAEFER (SAFF): It's already collected.

DR CRAIK: By?

MR SCHAEFER (SAFF): It's already there. ABB; Viterra are doing it. In 2004, when Ausbulk still ran the business, I as a grower and anybody else could get on the ezigrain - which at that time was a fantastic service. It has been impeded somewhat since, but at that time it was a really good service. I could get on and see what grain - wheat, barley, canola, beans, peas - came into any site at the end of any day, and technology has moved a hell of a lot further on since then. So the information is there at the click of a button.

MS MacRAE: What was that called - ezigrain?

MR SCHAEFER (SAFF): Ezigrain web site.

MS MacRAE: Is that still going?

MR SCHAEFER (SAFF): It's still going, but it's at a far more impeded - it's very difficult to get any information out of it, other than our own things. Stack averages are very important. We've seen with canola this year that people on the Eyre Peninsula have had up to 52 per cent oils - phenomenal. The stack average needs to be known because, if the stack average is 50 per cent, the trade know where they can buy that grain for pricing and the growers need to know whether their oil is well above the average, or what's going to come out of that stack for really price discovery. Feed wheat is another really important issue because, talking to growers across the state, I don't think that the feed wheat issue is as bad as what has been expressed on the radio. Perhaps there's an advantage there for the growers that have got feed wheat to get a bit more, but the price has been talked down because it's a big drama.

DR CRAIK: Jamie, do you want to say something?

MR SMITH (SAFF): I was just going to go on from Michael. He made the comment anyway that in times past that information was available, and that that information is still collected. Perhaps if it was going to be provided from an autonomous body, the other body that obviously has that information is NGR that could supply that information. They are collecting and collating that information for the trade for execution of business. Obviously, that could be an information service provided by NGR.

DR CRAIK: One of the issues that's been raised with us is that if that information were generally available, that internationally people would get the same level of information and that may well have a depressing of price on the price offered here.

MR SMITH (SAFF): It's a two-edged sword.

MR SCHAEFER (SAFF): If people think that the international trade don't know what we've got to a degree - they don't know it accurately enough - the biggest people that miss out in this lack of information flow are the growers, and that is why it needs to be available so growers can make decisions. If you're holding onto grain, for whatever reason, you need to know what's left to be sold and those types of things to make a decision, because if you're in the last 10,000 tonnes, your grain is not worth anything until the next growing season. Once the last boat goes, the grain that's left in the warehouse might as well stay there till the next season.

DR CRAIK: Is it different from other commodities?

MR SCHAEFER (SAFF): Wheat?

DR CRAIK: Yes, in that information - - -

MR SCHAEFER (SAFF): Our view is that it's a disaster because no information is available on any of the commodities. This is why we've made the statement right at the start; that information flow should be extended to all grains, not just wheat. The great travesty of the great work done by the federal government in deregulating wheat is that they didn't take the opportunity to extend it to all grains. We're lucky in South Australia: anybody is able to buy and sell all grains and, provided they've got a licence, they can export it. I'm not sure where that sits in Western Australia, whether they've still got an embargo on canola and barley. They had a GLA over there.

DR CRAIK: I think the GLA ceased in October.

MR SCHAEFER (SAFF): That's finished.

DR CRAIK: Yes, I think so.

MR SCHAEFER (SAFF): Oh, well, lucky them. But I think the whole of the country now is free to be able to trade anything, and I think that's very positive. But the information flow in any jurisdiction is not there because of the dominance of the major storage and handlers.

DR CRAIK: Is the information that ABARE and ABS put out of any use to the industry?

MR SCHAEFER (SAFF): Well, (a) it's historical, and it's seriously historical.

DR CRAIK: Would you be happy to see, once the government stops funding it in 2011, it's no longer produced?

MR SCHAEFER (SAFF): Absolutely. They can spend their money better, somewhere else.

DR CRAIK: It's probably your money, but yes.

MR SCHAEFER (SAFF): Well, most of the time it is and that gets back to what we've said all the way along: it's to do with risk, and the risk ends up with the grower wearing it.

DR CRAIK: Okay.

MS MacRAE: Could I just ask a question. There was something you said in your opening comments, Michael, about pools and financial services and risk.

MR SCHAEFER (SAFF): Yes.

MS MacRAE: We heard this issue only at a roundtable or the forum that we had in Western Australia. As far as I know, I don't think you've covered it in your submission, so I just wonder if you could say a little bit more about it, because we don't actually have much on the record about that issue.

MR SCHAEFER (SAFF): All right. The other blokes are more than welcome to say something too, because I have a severe dislike of pools, but I recognise that growers do like them and that there is a place for them. One of the reasons why I have a dislike for them is because of the accountability factor. It is sold as a risk-free product and in fact it's probably the riskiest product, because if you sell for cash and you've got your money in 30 days you'd have no risk, and so there's been a number of issues come up. Jamie, would you like to expand on financial services for the pools?

MR SMITH (SAFF): Thanks, Michael, for throwing that curve ball! I think Michael is right. What we find is that the pools have come from a historical perspective where they were statutorily protected. They were ring fenced. They had various protections around them. However, in a deregulated environment, a pool is very much a different thing, it's a very different animal, and unfortunately they are still being marketed and still being accepted with the same view that they are a risk-free product. So I think, as with a lot of the financial system, those sort of products have been regulated somewhat and put under the Financial Services Act. We're not talking small amounts of money or small amounts of investment.

The reason that wheat has been seen to be different in its consideration in some of these things is the fact that, in a lot of areas in Australia, it forms such a huge portion of the income. Pulses, for example, might represent 20 per cent of the income, therefore if you don't manage your risk well and you're pulse-marketing and that trader went under, that is 20 per cent of your income. It's going to seriously damage your business, but it may not have it fall over, whereas with wheat, for example, if you have 80 per cent of your income in one particular entity or one particular product, then you are seriously at risk if that falls over.

With the recent deregulation and the recent - without naming them - unfortunate situation of one of the major traders in this country, I made the comment to a number of people, "Would you be happy to put a million dollars on fixed deposit with that company with no security?" They said, "Hell, no," and I made the comment, "Well, you're doing that with your wheat every time you do it."

So I think there need to be some sort of responsibilities around running a pool and some sort of prudential regulation and considerations, given that it could form a large part of the income and is seen as being actually a risk management tool for some growers and, as Michael suggested, may in fact be putting them at more risk.

MR SCHAEFER (SAFF): I think that's the problem; it's very risky. My view is, "Why would you do that?" But I know the average farmer is 60 years old. Most of them have never known anything but regulation, and the pool was always the safe alternative; it was always safe and secure. Well, it may not have been that safe and may not have been that secure, but you had no choice before, whereas now you have a choice, but you've still got this hangover, and that generation of farmer - very difficult to change. If they are going to continue to do that, well, in the interests of that perhaps that's why we need to have a look at the way pools are structured, the way they are sold, the way that they're reported on, because some very interesting literature gets around about how one pool has performed against another, and honestly, if it was done under the Financial Services Act we wouldn't have any of that rubbish any more and that would be a very healthy thing for everyone.

DR CRAIK: So is there any evidence of any pools falling over in the last 18 months?

MR SCHAEFER (SAFF): No, I don't know of any pools falling over, but I'm not sure that that's the point. It's the way that they're operated and run and reported on.

MR SMITH (SAFF): I think it's not the argument necessarily that the pool will fall over. I think it's the argument as to whether it delivers on its projected outcome. Like, the Financial Services Act looks after superannuation. It doesn't really say,

"Prudentially is this thing in" - because by its nature a pool should have some structure of risk management. What I think we're trying to say is, does it deliver against what it's said it's going to do and is there any sort of checking or requirement for, as Michael suggested, those unsubstantiated claims and reports?

The other thing that is important about that is that in the past, estimated pool returns have formed a fundamental plank of budgetary and banking requirements for your banker. If that is at all going to be used in the future, it needs to have some integrity about it, otherwise it won't be able to be used as any sort of indicator.

DR CRAIK: Has there been a lot of concern or criticism from farmers who have put their wheat into pools and who haven't got the returns that have been promised? Has that been a feature?

MR SCHAEFER (SAFF): It's a difficult one. That might be something that you'll be able to ask next year or the year after because, particularly in South Australia, with three fairly solid droughts, cash is king because people have needed the money quickly.

DR CRAIK: Sure, yes.

MR SCHAEFER (SAFF): And given that we're farmers, the information available as to where the wheat has gone, or other grains, we can't tell you. You might have to ask the storage-and-handler that, because they would have the information on what grain has gone into what pools.

MR SMITH (SAFF): That just prompted something. Can I just make a comment. Going back to the information flow, talking about cash flow, one thing that I think is a recognition that will happen - and with the takeover by Viterro I think it will be a very healthy sort of thing - is that there will be a move towards carry, towards a system where you sell grain that you own instead of trying to forward-sell, which will take a lot of the production forecast risk out of it for growers - which badly burnt growers a few years ago. So I think that enhances the need for quality information. As Michael suggested, unfortunately most growers are in a cashload-poor situation due to the last three years and it's very hard to actually get towards that carry, but I think carry and on-farm storage will increase in the next few years.

DR CRAIK: Has there been a big increase in on-farm storage in South Australia?

MR SCHAEFER (SAFF): Massive.

DR CRAIK: In the last few years?

MR SCHAEFER (SAFF): Massive. It is unbelievable. Silo and bin manufacturers can't make enough, shed makers are going berserk, and the amount of bags in paddocks is just extraordinary, and all for a number of reasons. It was dismissed as a free-rider or something in the previous submission, but at the end of the day we have to come to grips with the fact that people are going to have to access the system in this state because it is an export state, and that has to be done effectively, and people are putting more and more stuff on farm at harvest because it's a critical time.

We've seen what weather has done in this state - a frightening aspect. Hopefully the end result won't be as bad as the reports that have been made over the last couple of weeks, but that just shows the need to get the grain into storage or wrapped as quickly as possible. Growers are making decisions now to put it on farm and then truck it down in a quieter period of February, March, April because the cost of trucking is reduced because the demand on trucks isn't as great, so they're getting a better cost of transport.

All of these types of things are going to continue to increase and that's why these issues that we've raised need to be sorted out. The risk needs to be shared. I mean, we're paying. We know we're going to pay for it one way or another, but we don't need to be exploited because of the fact that there is only one business operating in the state and, while there are other storage outlets in the state, they are all very marginal compared to the major one and, at the end of the day, the bulk ports are all owned by the one company. As Jamie made mention, the geography of this state isn't like Western Australia where the ability to get out of port zone wheat into another port zone - it's very limited here. So all of those things make it very difficult.

Viterra bought the business because it was a monopoly and it's a good business, but it's a very high-cost business to get into, so it's a natural monopoly and we need to make it work as effectively as possible for the industry, and that's why we keep banging the drum.

MS MacRAE: Can I just be clear: in relation to how you see sort of going forward - I appreciate your position that you regard them as natural monopoly assets and you'd like to see continuing regulation there. Is your view that the existing ACCC undertakings are either too strong or not strong enough for that?

MR SCHAEFER (SAFF): Not strong enough.

MS MacRAE: Not strong enough, okay. So you'd want to have at least as much regulation as currently applies to those.

MR SCHAEFER (SAFF): Yes. We'd like it extended up-country as well, because

in South Australia the up-country is nearly the storage for the ports. We've seen the problem with focusing only on the ports in that Port Lincoln, the charges were made such that it was more attractive for growers to deliver direct to port, so it didn't fill up. We made the comment that could well be a result of the way the charging structure was done.

DR CRAIK: So it was more convenient for growers to deliver direct to port?

MR SCHAEFER (SAFF): And cost-effectively it was better to deliver to the port.

DR CRAIK: That's the opposite to what we've been hearing almost everywhere else.

MR SCHAEFER (SAFF): The charges were moved up-country rather than from the port. That was one end result. In our submissions to the ACCC that was the message that we tried to convey, but - and it's certainly not the ACCC's fault because they were in such a very narrow margin of where they could operate that they could only do what they did, and we would hope that the government and both sides of parliament would acknowledge that that's an issue. I don't want to bash Viterra. That's not what this is about. I don't care who owns the facilities. It's the problem with having a monopoly, and we see it in the telecommunications industry with a very dominant player. They are able to do things that they wouldn't be able to do if everybody was on a more equal footing. And I'm anti regulation. I don't like it. I think people should be able to go about their business and make money, but when you have a dominant player that is able to flex its muscles for its own interest - I'm not saying that Viterra have done that, but they could if they wished to, because of their dominant position - then there needs to be some oversight on that so that other participants in the industry are able to go about their business and make money.

DR CRAIK: So would you want the transport regulated as well?

MR SCHAEFER (SAFF): The transport is very regulated in our state because ABB control it.

DR CRAIK: If you were looking at regulation of the ports and regulation of up-country storages, would you want the transport between the two regulated as well?

MR SCHAEFER (SAFF): I think that there needs to be oversight of it.

MR SMITH (SAFF): I was just going to say that we're not necessarily looking for regulation. What we're looking for is transparency in the information flow.

MR SCHAEFER (SAFF): Yes.

MR SMITH (SAFF): I mean, in the absence of direct competition, how do you get price discovery? So really the only two ways to put the light of day on it is through information and transparency.

MR SCHAEFER (SAFF): On that, we're not just saying it should only be ABB or Viterra to disclose this information. We think that any GTA-accredited site - and in our state I think that would be ABB, AWB, Balco, Tremletts; there might be one or two other smaller ones - they all should have to disclose the information of their stocks and stack averages and what's in warehouse, what's sold. We don't need to know who's got what, but there needs to be that basic information. I mean, look, if America can do it, surely we can.

DR CRAIK: Hasn't the government put a lot of money into the American disclosure of information, though?

MR SCHAEFER (SAFF): They probably do. But the reason they did it was because they sold the American crop twice to the Russians in about 1974. Government has an obligation to facilitate industry and make sure that it works effectively.

DR CRAIK: Government likes to be convinced of that, as to why it should.

MR SCHAEFER (SAFF): The government interferes with industry and makes it not work most of the time. We're asking for it to help. We're trying to give them brownie points. Honestly, the amount of money that would - it shouldn't cost any money at all because, as we said, ezigrain showed all that information five years ago.

DR CRAIK: Okay. We don't have any more questions, so thank you very much for your comments, for your answers to the questions, and for your submissions.

MR SCHAEFER (SAFF): In conclusion, we would just hope that the Productivity Commission take into account the risk issues on executing grain sales in South Australia and the importance of both the shipping stem and the information flows. Thank you.

DR CRAIK: Thank you.

MS MacRAE: Thank you.

DR CRAIK: Ladies and gentlemen, that concludes today's scheduled proceedings. For the record, is there anyone else who wants to appear today before the

commission? Then I adjourn these proceedings. That's it for the hearings for this round of the inquiry. Thank you very much.

AT 12.07 PM THE INQUIRY WAS ADJOURNED ACCORDINGLY