

PRODUCTIVITY COMMISSION REVIEW

WHEAT EXPORT MARKETING ARRANGEMENTS

Introduction:

My name is Steve Chamarette; I am a relatively small landowner and wheat grower from Trayning, W.A. The farm is my 'future' superannuation and wheat currently contributes to my wife and my retirement income. Consequently, we have a financial interest in seeing a profitable and sustainable price for our wheat as this will directly reflect on the value of our property should we wish to sell it at some future date.

I should also declare that I am a shareholder in AWB, CBH and a member of W.A. Farmers. However, this is an individual submission written from the perspective of a small grain grower.

I have noted that on the Issues Paper:

1. "The Productivity Commission is the Australian Government's independent research and advisory body on a range of economic, social and environmental issues affecting the welfare of Australians. Its role, expressed most simply, is to help governments make better policies, in the long term interest of the Australian community.

The Commission's independence is underpinned by an Act of Parliament. Its processes and outputs are open to public scrutiny and are driven by concern for the wellbeing of the community as a whole."

2. "The Commission has therefore not been asked to compare the current arrangements for wheat marketing with those that prevailed through the "single desk" arrangement."
- 3 "Participants should give evidence to support their views such as data and documentation."

In my opinion I find it difficult to comprehend how the Commission can fully meet their stated aim of independence by discarding the "Single Desk" option even if it is used as a base case. It is hoped that the methodology to support the Commission's findings will clearly identify and quantify as to whom, how and what benefits and losses are being incurred in the current system. More importantly, it is hoped the Commission will detail the projected future outcomes for the wheat industry under the current system. In this respect I would like to quote from the 2005 AWBI publication: "Your Single Desk" which hopefully the Commission will be read in detail.

"Using sophisticated economic modeling Econtech has estimated the value of AWBI's management of the Single Desk as approximately \$200 million annually for Australian growers or an average of \$13 per tonne. Professors Gans and Hirshberg of the University of Melbourne have found that under the current structure of the Australian

and global wheat industry it is unlikely that in the event of Single Desk deregulation Australia would move to a fully contestable market. They estimate that the emergence of less than fully contestable domestic market structures in a post-Single Desk world could reduce grower returns by between US\$360-563 million".

In fact, Professors Gans and Hirshberg forecast that following the loss of the single desk the wheat industry would be dominated by a few major players which would likely result in a negative impact on growers.

Under the "Single Desk" pooling arrangements growers gained some recognition and financial benefit for both quality (under 'Golden Rewards') and the blending of lower and higher quality wheat to establish a saleable average. These benefits are now the hands of marketers, due to cliff face pricing. Currently, the setting of grain receival standards has been delegated to the Grain Trade Australia (GTA). A review of the GTA website shows that the GTA membership requirements and Board of GTA would make it difficult for growers to participate or have a strong voice. As such, most growers' would perceive that the GTA has a conflict of interest if allowed to continue setting receival standards. If receival standards are required, then it should be done by an independent body that includes grower representation at the highest level.

In my opinion the setting of receival standards should be delegated to each State and supervised by GRDC. A democratically elected committee comprising of major stake holders could receive advice from representatives of local marketers, bulk handlers, grower and state farming organizations. This committee being independent and local would be more accessible, responsive and understanding of local conditions which can vary from season to season. More importantly the committee could address specific local issues and concerns from marketers, transporters, bulk-handlers and growers with respect to grades, segregations, cliff facing, load averaging etc from a truly independent stance. Load averaging for instance would improve productivity at the silos, minimize on farm grower blending as well as giving growers the opportunity to share the financial benefits of the stack average. It may also include that the testing equipment be certified for accuracy as is done in the USA.

Unfortunately I am not in a position to produce detailed data and documentation as I have limited resources. However, this submission is derived from my own life experience which includes 4 years as a Director of AWB (elected after the Oil for Food shipments ceased). Privately, and as a director I have had the opportunity to travel, meet and discussed industry issues with numerous stakeholders, consultants, other directors and growers all over Australia and overseas...

Key Objectives:

The following comments relate to the principal objectives of the report:

1. The accreditation of bulk wheat exporters to ensure that they are 'fit and proper' to export wheat from Australia.

2. Ensuring that the operators of port terminal facilities who also want to be exporters cannot use access to their facilities to inhibit competition from rival exporters.

As neither the Act nor the accreditation scheme gives any financial guarantees or underwriting to accredited exporters it is of no real value to growers. If the accredited exporters were required to submit a "bank guarantee" for say 70% of the value of the tonnes they planned to export then there would be some point to the accreditation process. This financial knowledge would give growers some basis to assess the level of risk being undertaken. It is also noted that bags, containers other grains or commodities like coal or iron ore do not require accreditation. Therefore, the requirement for wheat export accreditation in its current form serves no practical purpose. Rather, the accreditation process imposes additional costs to companies seeking to export wheat in bulk which no doubt will be passed on to growers.

I am also of the opinion that port facilities are not a restrictive barrier to competition. Owners of port facilities require grain through-put to gain economies of scale. I think it would be against their own commercial interest to discriminate against any potential marketer who wishes to use their port facilities. The "Auction System" seems a fair way of allowing the market decide the premium for peak shipping periods. In addition the container and bag market is available to all and often is the preferred method of delivery by many wheat importers.

In the Commissions consideration it is requested that a state by state or port zone basis to port facilities be adopted. If we are to believe the forecasts of:

1. Population growth.
2. Climate change with increasing climate variability.
3. Emission Trading Scheme carbon Tax.
4. Diminishing arable land due to salinity, urban sprawl, lifestyle blocks around large regional towns in N.S.W. and Victoria.
5. Restrictions on water allocation and licensing.

Then in the next decade or so the wheat production in S.A, Victoria, N.S.W. and Queensland will be consumed domestically for other than in exceptional production years. WA may possibly be the only state exporting wheat consistently post 2020.

If this is the case competition and the definition of the good policies in the long term interest of the Australian communities must be approached differently for each port zone to assess the effect on local communities. Most farmers today are seeking price stability, long term profitability and sustainability. However farmers need to contend with the rising production costs (labour, machinery, transport, fuel, fertilizer, chemicals, bank interest rates, state and federal legislative compliance). These costs can not be passed on to consumers as the price of export wheat is set by the world market. It is my opinion there is currently very little domestic competition to drive down input costs or to purchase export wheat. The level of competition could possibly even lessen as the industry under goes further consolidation. Even the high Australian dollar seems to have little effect on imported costs but a devastating effect on the price of export wheat which is contracted in US dollars

Summary:

In my personal view deregulation and competition from the 20 to 30 accredited purchasers of export wheat have contributed nothing to improve the profitability of wheat growers. Last year the blame was the Global Financial Crises, this year it is the high Australian dollar. The truth possibly is,

1. That few if any Australian wheat exporting companies can afford to pursue currency and commodity hedging to the level undertaken under the "single Desk". The financial risk is too high when there is no guarantee as to the number of tonnes the company will receive at harvest.
2. It is more profitable for exporters to "cliff face" prices and derive profits out of blending, conducting SWAPS and possibly hedging the "early commitment" pools with little or no risk.

It is my personal view that if the growers' rate of diminishing profitability continues over an extended period there will be an ever decreasing number of farmers and less wheat production. Any farming productivity gains through economies of scale and technology are reaching a plateau. The associated risks of planting large hectare, at current input expenditure would leave most farmers in a precarious financial position if drought or low wheat prices prevail for two consecutive years.

Many farmers find it difficult to adopt strategies to hedge currency and commodity markets when there is also production risk. More importantly few farmers have the time, technical and financial capacity to devote to hedging when immediate farming tasks need to be addressed. (If the current WA State Governments budget is \$700m in the red because Treasury with all its resources forecast the Australian dollar at 68.5c for its mineral royalty revenue. What chance does the average farmer have in meeting their budget?)

So what is the solution for wheat farmers?

Many countries like Japan, U.S.A .and EU who place a high value on food security use agricultural subsidies. China refuses to allow their farmers to drift to the cities in search of a better financial life. It is unlikely that Australian would consider either of these strategies however to give some direction to agriculture the Government needs to:

1. Join the USA and EU by totally excluding agriculture from any future Emission Trading Scheme (ETS).
2. Encourage cooperative behaviour by farmers to enhance competition. The current balance of few buyers (20 to 30 exporters) is miniscule compared to the thousands of individual wheat sellers. (The definition of a competitive market is that the number of buyers and sellers should be large and relatively the same in number.) This imbalance prevails in all aspects of the wheat and agriculture

Industry. All future indications are that further consolidation through mergers and acquisitions will occur in the wheat industry. Like the recent merger of ABB and Viterra, or the rumored AWB partnering with Gavilon. Australian companies in the immediate future will seek to partner with or be taken over by the large wheat traders like ConAgra, Cargill, Louis Dreyfus, ADM or Bunge.

The USA Government recognized the economic imbalance between few corporations and many individual farmers back in the 1920's. The USA Government took action to address the issue to enhance competition in the agriculture industry by exempting USA agriculture cooperatives from the Sherman Anti-Trust legislation. In addition several other acts like the Capper-Volstead Act, the Cooperative Marketing Act, the Agriculture Marketing Act, the Agriculture Agreement Act and the Export Trading Company Act allow farmers to protect the livelihood and be in control of most aspects of their agricultural processes.

Attached at Appendix A and B is a brief summary of all the Acts while Appendix C is a statement by the US Department of Agriculture describing the role of the Agricultural Cooperative Services (ASC). The ASC encourages and assists farmer to act in a cooperative fashion to reduce their production input, transportation, handling and marketing costs.

Contrary to many skeptics this pro cooperative USA Legislation has increased competition and has not detracted from the growth of large USA corporations and private agricultural based companies to expand domestically and internationally.

The Productivity Commission should learn from the USA's 75 years of experience and acknowledge that cooperative behavior enhances and does not detract from competition to produce a more sustainable agricultural industry. The Productivity Commission should recommend to the Government to introduce similar cooperative legislation to Australia as it already has been tested and proved in the USA to produce an Agriculture Sector that is viable.

Failure to address the lack of competition in the agriculture sector will place Australia future ability to be self sufficient and feed its own community at jeopardy. If this issue is not immediately addressed Australia will see more grower exiting the wheat industry in particular and agriculture in general. Unless farm profitability can be returned and sustained at an adequate level the future of the wheat belt towns of W.A in particular will see a continuing depletion of population and services with a social and economic consequence that will affect the whole of State as well as Australia.



Steve Chamarette

11 November 2009

APPENDIX A -- CAPPER-VOLSTEAD ACT

Section 1. Extent of the exemption

Section 1 of the Capper-Volstead Act defines the "persons" and "associations" entitled to claim the limited antitrust exemption granted, and describes the elements and scope of the exemption. This modified outline breaks out the key concepts in the statutory language.

A. Membership must be limited to "persons engaged in the production of agricultural products as farmers, planters, ranchmen, dairymen, nut or fruit growers . . ."

B. Agricultural producers may:

- (i) "act together in associations, corporate or otherwise, with or without capital stock"
- (ii) "in collectively processing, preparing for market, handling, and marketing such products of persons so engaged."

C. Such associations may:

- (i) "have marketing agencies in common," and
- (ii) "make the necessary contracts and agreements to effect such purposes."

D. Provided:

- (i) "such associations are operated for the mutual benefit of the members . . . as . . . producers,"
- (ii) "no member . . . is allowed more than one vote because of the amount of stock or membership capital he may own, or the association does not pay dividends on stock or membership capital in excess of 8 per centum per annum."
- (iii) "**the association** shall not deal in the products of non-members to an amount greater in value than such as are handled by it for members."

APPENDIX B - OTHER IMPORTANT STATUTES

Several other Federal statutes are closely related to the antitrust laws. Cooperative leaders should be familiar with the main objectives of these acts so they can identify how these laws may affect cooperative structure and operation.

Cooperative Marketing Act of 1926

In the Cooperative Marketing Act of 1926, Congress authorized farmers, through cooperative associations, to exchange and disseminate market and economic information among themselves. This act also provides legislative authorization for the Agricultural Cooperative Service and its research activities and assistance to cooperatives. 74/

Agricultural Marketing Act of 1929

The stated policy of the Agricultural Marketing Act of 1929 is to promote effective marketing of agricultural commodities by promoting and financing cooperatives. Although much of the substance of this act has been superseded by Farm Credit legislation, it still remains a valid statement of congressional support for agricultural cooperative marketing. 75/

Robinson-Patman Act of 1936

The **Robinson-Patman** Act prohibits the sale of commodities of the same grade and quality at prices that discriminate between purchasers without economic justification. While the act applies to cooperatives, it specifically provides that payment of patronage refunds will not violate the act. 76/

Agricultural Marketing Agreement Act of 1937

This law authorizes the Secretary of Agriculture to enter into marketing agreements with producers of certain agricultural prod-

7417 U.S.C. 45 1-457.

75112 U.S.C. 1141.

76/ 15 U.S.C. 13, 13b.

ucts and provides that nothing in those agreements shall be held to violate the antitrust laws. It also authorizes the Secretary to establish Federal marketing orders, which are plans developed by growers (often represented by cooperatives) and handlers to work out supply and demand programs. Marketing orders are also exempt from the antitrust laws. 77/

Agricultural Fair Practices Act of 1967

The Agricultural Fair Practices Act protects farmers' rights to organize and join producer associations. The act establishes standards of fair practice for handlers and processors who deal with farmers, and prohibits them from discriminating against farmers because they are members of a producers' association. 78/

Export Trading Company Act of 1982

The Export Trading Company Act provides antitrust protection for legitimate foreign market development activity. The act provides cooperatives interested in export marketing flexibility to combine assets with other businesses, including noncooperative processors and merchandisers, to become big enough to be a factor in the international arena. 79/

77/ 17 U.S.C. 601 et seq.

78/ 7 U.S.C. 2301-2306.

79/ 15 U.S.C. 6a, 45(a)(3). See Janice Payt, "How Agricultural Exporters, Cooperatives, and Joint Export Marketing Groups Can Use the Export Trading Company Act," 8 *Journal of Agricultural Taxation and Law*, p. 34 (Spring 1986).

APPENDIX C AGRICULTURAL COOPERATIVE SERVICES

U.S. Department of Agriculture
Agricultural Cooperative Service
P.O. Box 96576
Washington, D.C. 20090-6576

Agricultural Cooperative Service (ACS) provides research, management, and educational assistance to cooperatives to strengthen the economic position of farmers and other rural residents. It works directly with cooperative leaders and Federal and State agencies to improve organization, leadership, and operation of cooperatives and to give guidance to further development.

The agency (1) helps farmers and other rural residents develop cooperatives to obtain supplies and services at lower cost and to get better prices for products they sell; (2) advises rural residents on developing existing resources through cooperative action to enhance rural living; (3) helps cooperatives improve services and operating efficiency; (4) informs members, directors, employees, and the public on how cooperatives work and benefit their members and their communities; and (5) encourages international cooperative programs.

ACS publishes research and educational materials and issues *Farmer Cooperatives* magazine. All programs and activities are conducted on a nondiscriminatory basis, without regard to race, creed, color, sex, age, marital status, handicap, or national origin.