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Flour Millers' Council of Australia

Submission to Productivity Council

Inquiry Wheat Export Marketing Arrangements

Wheat Export Marketing Arrangements
Productivity Commission
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The Flour Millers' Council of Australia represents companies engaged in the domestic milling industry that uses 2.7 million tonnes of wheat per annum to produce a range of flour products.

This submission covers three key elements of the issues paper;
Section 4 Information provision and market transparency
Section 5 Wheat classification and market segmentation
Section 6 Industry good functions

Section 4

The Flour Millers Council of Australia (FMCA) contends that 'Information Availability', and a 'System' that can provide that information is vital to a fair and efficient market, necessary to those engaged in export of wheat and to those in the domestic milling industry which operates competitively in the same market environment.

We require that the 'Market' has full knowledge of grains stocks, so to allow a truly free market to be established, where knowledge of Supply can lead to efficient Price Discovery, therefore enabling effective Supply and Price Risk Management Systems to operate, e.g. Futures Markets.

Without such a free market system those who control grain stocks will seek to profit from that control, and will inevitably restrict information about grain availability so as to obtain a market advantage.

An advantage to those who control stocks is a disadvantage to others in that market. A consequence of such market control is a distorted market.

Such a market creates undue risk and inefficiency for most involved in the market, in particular those who are not in a position to control that market.

If timeliness is a problem, are there any mechanisms to facilitate more timely Provision of information?

Timeliness of information is essential as movement and location of grain stocks is not to regular pattern, rather it is irregular and large movements can take place in relatively short timeframes depending on shipping programs, harvest periods, reaction to supply and demand influences that can alter due to climatic outcomes within a season etc.

Unless a satisfactory frequency of information is available parts of the market can be very quickly disadvantaged. It is our view that the currently applied system for collection and supply of information for use by the market is inadequate.

Supply of information requires a shared responsibility by all industry participants to provide frequent updates on stocks and location of grain and forward contracted use and disposal.

A responsible 'Agency' to be funded by shared commitment of Government and Industry, with identity of players and allocation of cost to industry sectors, based on volumes. The advantage of such a System is that it will, in addition to information gathering and disbursement as intended, will allow identification of individual Supply Chain players and amounts of grain traded. This information offers potential for the industry to help fund the 'System', and to provide source data for other levies and payments such as GRDC, PVR payments to Breeders, and other Industry Good functions.

A mechanism that has a documented history and is often quoted as a model for comparison is that of the American USDA.

This includes all parts of the supply chain and is mainly based on frequency of monthly reporting.

What amount and type of market information should be made available and who should pay for it?

All participants including Government should share equitably the costs.

Typically information would include such stock points as;

Stocks held by bulk handlers, accumulators, marketers, farmers etc. with storage facilities, and end users.

Grain used or disposed of by parties as above.

Grain committed for forward supply of use by parties as above.

In practice a minimum volume threshold would define those required to submit this market information.

With what frequency should information be provided?

It is suggested that weekly reporting is necessarily particularly during harvest and critical pre-harvest periods, especially in circumstance of drought. Historically the managed 'Single Desk' function was able to provide this information in times where critical decision making was required, the information was necessary for industry participants to take decisions for the greater good, i.e. for management to best effect of all participants.

In reality in most circumstances monthly reporting is practical. If the systems are in place then in crisis more frequent reporting can be invoked.

What are the requirements of disclosure of information on the amount and type of stocks held at grain receival facilities? Should they be changed? If so, how? Do industry participants have sufficient knowledge of how to use market information?

Information should be collated based on port zone to provide necessary reconciliation and logistical understanding of grain access and availability across the nation. Stocks by grain type and grade are necessary if all requirements of transparency and ultimate best use of stocks by the market can be achieved. For example if feed grains are available in a particular region then preferentially this market is likely to source and use this grain and not compete for stocks of higher grade grain suited to other markets.

Industry participants have the ability to be very efficient (refer the example immediately above) if the appropriate information is available. In reality this is pre requisite for market participants and if such skills are not available then they would need to be rapidly acquired as this becomes an element of competitive advantage in an adequately informed marketplace. Of relevant importance is this also provides the maximum opportunity for the most productive sourcing of grain by location, type and cost and therefore will provide the most efficient and cost effective supply chain and by consequence the best dollar return for the crop.

Who is best placed to provide market information and why? Can the industry deal with the provision of market information itself (for example, with a code of conduct)? Or is government involvement required? If so, what form should that involvement take? Regulation? Funding? Provision?

As explained previously all participants in the industry including Government must share in this information generation, collation and disbursement activity. Logically there must be a designated responsible entity to carry out the function. The worst possible outcome would be for multiple sources of disparate information presented in different ways and at different times that would cause confusion and mistrust, dispute and inefficiency and cost.

Government involvement is necessary, ideally without regulation, however failing recognition of responsibility by all participants to the Australian Grains Industry may be necessary to some degree.

We believe that there is opportunity for the Australian Grains industry to benefit from new marketing arrangements. To do this we must be able to provide an optimal market environment that is fair and efficient and builds in the needs of all the organizations that represent the industry value chain. This assists all players to contribute to an Australian Grains Industry that can demonstrate superior competitive advantage.

Section 5

Is the WCC adequate for ensuring wheat quality and the usefulness of wheat classifications?

The Wheat Classification Council has met on two occasions, initially for formation purposes and on the second occasion as an active working group. The commitments indicated by all parties and the representation and industry experience assembled suggests that this group will make a significant contribution to the wheat industry primarily due to its function in matters integral to 'Wheat Classification' and therefore marketing of the Australian Wheat Crop and maintaining perceived first choice status of Australian Wheat in many markets.

Could the market deal with these issues without such a body?

No other body or group in the Australian Wheat Industry encompasses the role and tasks required of the WCC. This is essential if Australia is to be maintained competitive advantage and be able to service the type of markets serviced in the past. The alternative would be to become a commodity supplier and forgo capability to compete in the major discerning and higher margin markets.

Does the market differentiate adequately between qualities of grain? Is the current level of co-mingling activity appropriate?

The degree of differentiation of qualities of grain will always be the practical balance of that needed to maintain and satisfy customers versus the cost and capacity to establish further segregations. One strategy employed to extend the differentiation capability is for marketers or domestic end users to contract directly with accumulators or growers for specific varieties whose integrity can be maintained through the supply chain to intended end user.

From the domestic miller perspective co-mingling lessens the quality value of the segregation and creates potential difficulties in consistency of supply. The domestic miller employs strategies of different sources of supply and on site segregations to maintain an optimum consistency of wheat grist day in day out to satisfy customer requirements.

Is there adequate scope for marketing of particular types of wheat to service niche markets that are more narrowly specified than GTA standards? Does exporting through containers and bags provide a satisfactory way to exploit non-standard marketing opportunities?

Are growers able to extract an adequate value for the quality of their wheat?

For the domestic miller the GTA Wheat Receiving Standards represent the minimum acceptable physical standards for milling (milling performance & defect absence) and human consumption requirements (food safety). These are measurable and achievable, the difficult quality requirement for millers is functional quality and is generally defined through variety selection, the purpose of 'Classification' and the basis of 'Wheat Class Segregations' to satisfy market requirements.

Containers and bags or controlled segregations in the case of domestic millers enables the integrity of any special selection of grain by variety, functional characteristic etc. to be preserved and delivered to customers without loss of value in the bulk handling system. This niche supply would normally only be achieved by each participant achieving a satisfactory premium for the input required to add value to the segregation.

Can quality control be left to market-driven forces, with commercial incentives placing a check on the quality delivered to overseas buyers?

Market driven forces will be a determinate for non discerning commodity markets as price will be adjusted down to reflect quality defect mainly determined by physical standards. For discerning markets quality is mainly determined as functional performance that must always meet standard. The quality control is built back into wheat breeding programs and wheat classification and bulk segregation and is therefore a long term investment and not a trading manipulation.

Is quality control an issue in the domestic market?

Quality Assurance is a major issue and consideration for the domestic milling of human consumption flours. There is reliance on standards and meeting of standards at every point in the supply chain. Whilst at most points in the food supply chain, QA Management Systems and HACCP quality systems apply this is not common at farm level, something requiring encouragement. We note the successful initiative taken by CBH in Western Australia and similarly with some of the new grain

exporters as part of their requirements. Increased on farm storage of grain is seen as a risk for the industry.

Section 6

In the main 'industry good functions' have been picked up by the existing industry infrastructure. A potential gap in the competitive international market is the promotion and branding of Australian Wheat as distinct from promotion and branding by individual exporters to particular markets. The gap is the investment made by the wheat industries of major competitors e.g. USA & Canada to support their wheat industry and enable trading companies to maximize opportunities. Previously the single desk was able to promote and brand Australian Wheat.

A major positive for the Australian Wheat industry has been the transition of a Wheat Classification system from the AWB to one restructured to work outside of a single desk environment with potential to add greater value to the industry. In a short time frame the new Wheat Classification Council has managed to put in place a structure to compensate for the complexities of needing to coordinate a number of cross industry functions with multiple stakeholders, previously this could be resolved under the one roof.