

**Submission by the NSW Farmers' Association
to the Wheat Export Marketing
Consultation Committee**

NSW Farmers' Association

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NSW Farmers' Association

The NSW Farmers' Association (the Association) is Australia's largest State farmer organisation representing the interests of farmers in NSW – ranging from broad acre, meat, wool and grain producers, to more specialised producers in the horticulture, egg, pork, oyster and goat industries.

NSW Farmers Association Submission - Summary of Key Points

The NSW Farmers Association (the 'Association') has numerous policies of support for AWB International ('AWB I') as the manager of the wheat export Single Desk.

The Association supports returning to a Single Desk system managed by AWB I and is opposed to a system which allows more than one exporter of bulk wheat from Australia.

The Association recognises the need for significant improvements in corporate governance by the manager of the Single Desk.

The Association believes that there should be greater independence between AWB I and AWB Limited ('AWB L').

There is a clear need for greater transparency in pool management – particularly relating to the provision of pool services by AWB L to the National Pool.

The view of the Association is that significant regulation of pool reporting systems and standardised reporting of cash and pool prices should be a core element of future wheat marketing arrangements.

The Association believes that before any changes to the wheat marketing system are implemented, they must be properly evaluated and assessed for their ability to deliver clear net benefits to wheat producers.

Purpose of this Submission

The purpose of the Submission, as prepared by expert Members of the Grains Committee of the Association and representing the views of the Members of the Association and its elected Officials, is to provide input to the Wheat Export Marketing Consultation Committee ('WEMCC'). It will form part of the national consultation process in relation to Australia's future wheat export marketing arrangements.

The comments and remarks of the Submission reflects the collective views of the NSW Farmers Association (the 'Association') general membership in relation to export wheat marketing structures which are determined by the Association Annual Conference and Executive Council policy setting forums.

To further support and compliment this Submission and to provide current as well as quantitative support to our policies on wheat marketing, the Association undertook a survey of its grain producing membership base. Over 6000 members were invited to participate in the survey which was conducted online, via fax and via telephone. Some of the results from this survey have been articulated in this Submission.

Association Policies – Single Desk Marketing

In line with Annual Conference motions passed in recent years, the Association has publicly supported Australia's wheat Single Desk (as it was structured until December 2006). A summary of the Associations recent policies is set out below

Annual Conference 2006 Single Desk Marketing

That the Association supports the current wheat single desk export marketing arrangement and its management by AWB International with:

- a) Improved corporate governance within AWB;
- b) Increased transparency and independence between AWB International and AWB Limited;
- c) The provision of data demonstrating an increase in grower returns prior to any decision to change the current structure and marketing arrangement.

Annual Conference 2005 Single Desk Marketing

That the Association encourages the AWB to support the single desk arrangement in maintaining its objective through its subsidiaries and maximise pool returns to growers.

Annual Conference 2003 - Single Desk Marketing

"That the Association publicly reaffirms its support of the single desk marketing system for export wheat sales, and the current wheat marketing arrangements".

Annual Conference 2002 - Ticket by Ticket

“That the Association continues to support ticket by ticket sales of Export Wheat to AWB Ltd.”

NSW Farmers Association - Policy Setting Process

All Association policies are debated and voted on during its Annual Conference (held annually in July) and the interim policy setting forum of Executive Council. The Association policy deliberations are conducted in a democratic way and policy outcomes are considered to be representative of member views.

The Association’s numerous grain industry related policies are developed and debated at local Branch, District Council, grains advisory committee (Grains Committee), Executive Council and Annual Conference levels.

Approximately five hundred (500) delegates attend the Association’s Annual Conference each year and the most current policy of the Association (as at February 2007) on the wheat single desk was developed at the July 2006 Annual Conference, held in Sydney.

The Grains Committee is comprised of 8 NSW grain producers responsible for providing advice to other areas of the Association and is also responsible for executing Association policy. The Grains Committee has been largely responsible for drafting this submission.

Industry Position

It is important to note that the Association is not affiliated with any political party, commercial grain marketer or grain bulk handler and is in a unique position to provide an unencumbered, grower perspective on Wheat Export Marketing Arrangements on behalf of NSW wheat producers.

The 2004 Wheat Marketing Review

In its submission to 2004 Wheat Marketing Review, the Association made the following comments which remain relevant in the current wheat marketing environment.

- The wheat single desk continues to provide a net benefit to the NSW public and to NSW wheat producers;
- The management of the national pool, the performance of AWB I and the monitoring conducted by the WEA need to evolve. The Association notes that changes are required where it could be proven that benefits would flow to NSW and Australian wheat producers;
- The Association supports further analysis into the costs of operating the national pool, particularly in the areas of service and remuneration;
- The Association is supportive the process requiring the WEA to consult with AWB I on applications to export wheat in bags and/or containers before the WEA makes its final decision;
- The 2003 Grower report raised questions about certain areas of the monitoring process, including that:
 - It is not possible to determine the actual costs of operating the National Pools¹
 - The WEA is unable to conclusively state whether the guaranteed minimum base fee provided by AWB I to AWB L is appropriate²; and
- The Association seeks the adoption of a competitive service agreement between AWB (I) and AWB (L) and regular, detailed reports on the costs of the key services between the two companies.

In its submission to the 2004 Wheat Marketing Review the Association also stated that there is a need for greater independence between the boards of AWB I and AWB L while attracting a wider skill mix to these boards.

¹ page 17 – 2003 The Growers' Report

² page 17 – 2003 The Growers' Report

Priority elements of Australian Wheat Marketing Arrangements

In February 2007, the WEMMC asked for comments from growers and industry in relation to what they desire in a future wheat export marketing system.

A list of issues for consideration was circulated by the WEMCC and these have been expanded on below.

General Wheat Marketing Arrangements

The Association believes that a legislated single desk wheat marketing arrangement must be maintained and that this arrangement must include the functions carried out by a buyer of last resort.

Research by the Association carried out in February 2007 indicates that over 60% of Association members believe that core elements of future marketing arrangements should involve:

- A requirement of the single desk exporter to maximize net returns to growers;
- A focus by the single desk exporter on improving the supply chain; and
- A focus on further developing the export market position of Australian wheat producers.

Pooling Arrangements

The Association's wheat marketing survey indicated that 91% of Association Members have a considered view that future wheat marketing arrangements should include a national pool.

Pooling arrangements represent a valuable risk management option because of the way in which price risks and costs are spread out over time and across geographic market conditions.

It is possible that the benefits of pooling arrangements could operate in a wheat marketing environment that does not involve having a single desk and it is noted that pools are offered in other contestable NSW grain markets such as canola, sorghum and barley.

The Association is however concerned that a contestable wheat market would not provide the obligation by exporters to act as the buyer of last resort and would mean that many of the industry good functions currently provided to the industry may longer be carried out.

A considerable majority (88%) of Association members believe that a National Pool will continue to provide useful options for marketing wheat and it is critical that future national pools are a feature of future marketing systems.

Number of Buyers of Export Wheat

The Association has clear policies which support having only one exporter of bulk wheat and 70% of recently surveyed Members stated that they wanted to continue selling their wheat to one bulk exporter.

The Association understands that around 15% of bulk wheat exported from Australia by AWB is sold to third parties (such as brokers or other traders) before reaching its end use destination. It is important to note the distinction between this situation where international buyers take delivery of Australian wheat after it has been exported from Australia and a situation where international buyers can purchase wheat from Australian wheat producers before it is exported.

Factors Taken into Consideration by Wheat Growers when making Decisions about how to Sell Wheat

Price and payment risk are the most prominent factors taken into consideration by producers when marketing their wheat and other grains. Payment terms also feature prominently in the decision making process and will depend on the financial requirements of wheat producers and the associated tax advantages of certain marketing products.

It would be reasonable to state that the overwhelming majority of farmers will take the highest price from buyers who they believe will not default.

Improved Farm Business Returns of Wheat Producers and Transparency

Transparency is an issue of concern for many NSW wheat producers and 70% of Association Members have indicated that the current system does not provide sufficient transparency of price and cost information. A large percentage (60%) of Members believe that significant regulation of pool reporting systems and standardised reporting of cash and pool prices should be a core element of future wheat marketing arrangements

The Association believes that more contestable pool service arrangements between AWB I and AWB L could increase transparency of service arrangements, leading to lower pool management costs and higher returns to wheat growers.

Through the Grains Council of Australia and along with other State Farming Organisations, the Association has been pursuing the development of a national standardised grain pricing information system. At the present time there is no common protocol for the display of pricing information to growers and some buyers quote prices inclusive of costs while others quote prices exclusive of costs.

This situation typically results in widespread confusion about the net prices that growers expect to receive.

The Association believes that there is a strong case for classifying grain pools as financial products that are subject to compliance to the Financial Services Regulation Act (1999) Cth. This will require the export pool provider to engage in minimum disclosure processes and will ensure that a transparent, regulated export wheat pool pricing system is adopted by the industry.

Buyer of Last Resort

The requirement by AWB to offer a pool provides a basis for a relatively stable wheat marketing environment. A large percentage of domestic wheat traders utilize the pool as a part of their own marketing strategies and this delivers indirect pricing benefits and market avenues for wheat producers.

Services and “Industry Good Functions”

The Association believes that the provision of a wider range of services would deliver net benefits to wheat producers, so long as these services were provided in the context of a single desk marketing environment.

Provision by marketers of currency hedging and management of other commodity risks would be a benefit to wheat producers however an essential requirement of such an arrangement is that these services should be offered to growers on an optional basis.

The overwhelming majority of Association Members desire a range of payment options including cash, part payment on delivery with the balance later, and advances in the form of loans at delivery etc.

Marketing and Information

The Association believes that there are a number of marketing and information services which are critical to the on-going success and future development of the wheat industry. These services mainly relate to the promotion and marketing of Australian wheat overseas in such a way that new and emerging market opportunities are captured on behalf of Australian wheat producers.

The Single Desk marketer is indirectly charged with the responsibility of driving the management of these opportunities and communicating them back to plant breeders, crop researchers, infrastructure providers and grain producers.

The Association has concerns about the provision of timely and accurate information about stock levels and other related data to the industry in the current system, particularly in times of drought or oversupply.

The way in which market intelligence, production and grain inventory information is collected and disseminated in the United States by the United States Department of Agriculture ('USDA') could provide a useful template for future Australian wheat marketing arrangements.

The Association believes that the processes of collecting and disseminating fundamental production and supply data must be given due consideration and should form an essential part of any future single desk system.

Security of Payment

Grain buyers do not currently guarantee payments to growers or to other participants of the trade.

It would be possible for this to happen where the demand for such a service arose and precedents have been set in other agricultural industries (such as the del credere payment system which is prevalent in the livestock industry).

While this type of payment option (and others such as Escrow) could deliver benefits to grain producers, Members have not outlined a clear desire to have those included in future marketing arrangements.

Standard Setting, Quality Control, Quality Assurance

The Association believes that the functions of standard setting, quality control and quality assurance are critical elements of the single desk wheat system and must be retained as a part of any future arrangement.

Exports in Bags and Containers

Of surveyed members, 68% of grain producing members believe that the export of wheat in bags and containers should continue to be regulated and the Association supports this view.

It is however noted that the costs of assessing applications for bags are high. Consideration should be given to the management of these costs by the WEA which has historically dedicated considerable resources to the assessment of applications to export in bags and containers.

Transition to Any Alternative Arrangements

The Association will continue to advocate the policy as adopted by the Members of the Association, thus the following comments should not, in any way, indicate that the Association supports or endorses change, except as stated by the Members in the policy that was adopted at Annual Conference 2006, which stated (in part) at point (c) that "...The provision of data demonstrating an increase in grower returns prior to any decision to change the current structure and marketing arrangement".

However, given this caveat, the Association believes that throughout any process of change, extensive consideration must be given to the impact on existing pool participants as well as the impact that potential changes will have on industry good functions.

It is absolutely imperative that the process of change to any future arrangements does not compromise Australia's ability to supply quality wheat to the world market and does not stifle the momentum that Australia has as a highly regarded participant in the world wheat market.

The uncertainty surrounding Australia's wheat marketing arrangements must be resolved expeditiously and as a matter of priority.