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Grain Marketing in Australia

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Approved By:

Hugh Maginnis, Agricultural Counselor

Prepared By:

Rebecca Gowen, Agricultural Specialist

Report Highlights:

Australia is one of the world's largest producers and exporters of wheat. In 2012-13 wheat exports from Australia are forecast to be slightly less than 20 million tons, second only to the United States. The majority of wheat exported from Australia is in bulk form, with only a small percentage exported in bags or containers. Unlike other coarse grains, bulk wheat exports from Australia have been highly regulated under several forms of government control. For many years the wheat export market in Australia was dominated by the Australian Wheat Board (AWB). By virtue of its monopoly control, AWB was in a position to influence pricing and control export quantities and destinations in order to maximize returns to the Australian wheat farmer. At the same time the AWB was criticized by its competitors as a form of State Trading. That all ended in 2008 when major reforms were enacted that effectively abolished the AWB's monopoly of grain export markets. This report attempts to summarize the nature of those reforms and how the Australian grain marketing and handling system operates today as a result.

Grain export regulation

Between 1939 and 2008 the export of wheat from Australia was conducted exclusively by the Australian Wheat Board (AWB). Single-desk arrangements for wheat exporting were introduced in 1939 in response to falling export demand due to the worldwide depression, global oversupply and the resulting dramatic decline in world commodity prices. In 1999 AWB became a private company owned by wheat growers. It was listed on the Australian Stock Exchange in 2001. In 2005, during what became known as the Oil-for-Wheat scandal (part of the Oil-for-Food scandal where Iraq was allowed by the UN to trade oil on the open market for food), it was found that AWB had made payments to the Iraqi government to retain market access. These payments were in contravention of international sanctions placed on Saddam Hussein's regime. Largely as a result of these events, in 2008 the AWB lost its monopoly export rights. At that time the Wheat Export Marketing Act established Wheat Exports Australia (WEA) to administer the Wheat Export Accreditation Scheme. In 2010 AWB was acquired by the Canadian company, Agrium who then sold it to Cargill in 2011.

The purpose of the WEA was to manage the transition from export monopoly to full market deregulation by providing accreditation to companies wishing to export bulk wheat and govern the way in which exporters could gain access to export port facilities. The scheme was part funded by the Australian Government and partly by a 22 cent per ton levy on bulk wheat exported (the Wheat Export Charge). A Productivity Commission (PC) report in 2010 recommended that the WEA be abolished by September 30, 2011. In 2011 the Government proposed a three stage approach to implement changes suggested by the PC. The first stage, from October 1, 2011 to September 30, 2012, was to relax the requirements for companies to become accredited bulk exporters. The WEA was to be discontinued by 31 December 2012. Interim arrangements which removed the need for accreditation but maintained the port access test requirement were to then continue until September 30, 2014 from which time full and complete deregulation would ensue. However, the legislation required to enact this change did not pass the Australian Parliament until November 2012 and differed in several ways from the recommendations made by the PC.

The *Wheat Export Marketing Amendment Bill* was passed by the Australian Parliament on November 29, 2012. As a result the Wheat Export Accreditation Scheme and the Wheat Export Charge were abolished on December 10, 2012 and the WEA was closed on December 31, 2012. In the final vote two members of the Opposition from Western Australia voted with the Government and against their own Party -- an indication of the controversial nature of this bill. Under the new legislation, port access requirements will be retained until September 30, 2014 during which time they will be monitored by the Australian Competition and Consumer Commission (ACCC). A national wheat industry advisory board was also established to review current export arrangements and determine the appropriate use of surplus funds from the Wheat Export Charge.

Export regulation controversy

The question of wheat market regulation in Australia has been contentious for many years. The original purpose behind formation of the single-desk was to ensure reasonable prices for growers, reduce market transaction costs and provide quality control for exports. The 2010 Productivity Commission report found a clear distinction between growers in the eastern states who were concerned that deregulation would lead to a loss of price stability, increase risks to growers, increase costs and complexities when selling in a competitive market and reduce efficiency in storage and handling. Lack of bargaining power for individual farmers dealing with large, multinational companies has also been cited as a concern by farmers in these areas. In comparison the co-operative ownership structure of CBH which is the primary bulk handler in Western Australian provides growers with a much greater level of control and protection and explains the strong push for deregulation in the west. Western Australian wheat is also predominantly export-oriented, thus had been the most affected by the single desk and bulk export regulations compared to eastern states which had both domestic (unregulated) and international markets.

Since the abolition of the single-desk in 2008 further concerns from growers opposed to full deregulation have arisen in relation to deteriorating grain transport and storage infrastructure and the lack of consolidated information on grain stocks and exports. While both members of the Federal Opposition Coalition, the Liberal and National Parties, supported deregulation in principle, both were pushing for a further two year delay to allow time to address these concerns as well as ensure fair access to ports.

Industry organizations also disagreed about deregulation. The peak grain producers lobby group, 'Grain Growers' supported the abolition of the WEA stating that

"WEA does not provide any oversight or guarantee around wheat quality nor does it undertake any further industry good functions."

Another lobby group, Grain Producers Australia, believes that deregulation has led to international concerns about quality and a subsequent fall in prices for Australian wheat. However, by the WEA's own calculations deregulation has had a positive effect on wheat prices, particularly for West Australian growers. Ports in Western Australia have a competitive advantage over eastern ports due to their proximity to markets in Asia. Under the single-desk the wheat basis price was averaged between the east and west, effectively meaning that western growers were subsidizing prices for their eastern colleagues. The WEA also highlighted the increase in the number of international buyers of Australian wheat (both bulk and non-bulk) since deregulation. Nevertheless, WEA still supported an ongoing role for themselves in developing a 'strategic vision' for the wheat industry and continuing to provide wheat stocks information, quality assurance and technical training in milling and baking.

Ultimately two Western Australian Opposition members crossed the floor and voted in support of the deregulation bill to secure passage of the deregulation bill. Although the core principles of the Liberal party are firmly free-market based, there are elements within the National Party who support a higher level of protectionism. In the up-coming Australian Federal election (September 14, 2013) it is quite

possible that Katter's Australian Party (KAP), a new party which has a highly protectionist stance, may win several seats. In the event of another hung (or close to) parliament the KAP may hold substantial power within either or both Houses. Whilst re-regulation of wheat or other grain markets to the same extent is unlikely, it is possible that KAP members could push for other means of quasi-regulation.

Port access rules

All bulk grain export handling and port facilities in Australia are owned by one of six large companies. With deregulation a system had to be developed to enable other exporters access to these facilities.

In Western Australia and South Australia an auction system was designed in which grain exporters bid to secure terminal space for a particular period. The exporter must then purchase grain to fill the allotted 'slot' or pay a penalty fee (up to \$40 per ton). However the auction process has proven to be cumbersome and time consuming. In Western Australia the latest auction was only resolved after several delays while the South Australian system collapsed altogether and reverted to a 'first-come, first served' basis.

In the eastern states the majority of space is allocated on a 'first-come, first-served' basis but some capacity is sold up to three years in advance. The cost and risk of reserving this space is seen by some as a barrier to smaller exporters.

Initially reserved access was not transferable between ports or exporters. This was to avoid the potential for a secondary market to be created in trading port access slots. However the ACCC has recently ruled that some transfers should be allowed, particularly for individual exporters between ports.

These rules are still under development and eventually a voluntary code of conduct for allocating export capacity is to be developed. However there is still disagreement amongst industry as to the best way to achieve this and recommendations from the appointed committee are not due until July 2014.

Bulk grain handlers in Australia

Between In 1916 the company now known as Graincorp was founded by the New South Wales Department of Primary Industries to build bulk grain handling facilities in Sydney. Over time Graincorp became the largest owner of bulk grain storage and handling facilities in Australia. The organization remained government owned until it was privatized at a value of \$100 million in 1992 and listed on the Australian Stock Exchange in 1998. In 2002 Graincorp and Cargill began a joint venture with the purchase of Allied Mills which expanded operations into milling and baking. Graincorp now operates over 280 grain receival sites across New South Wales (NSW), Queensland (QLD) and Victoria (Vic) including 7 bulk grain export terminals. In April 2013 Archer Daniels Midlands approached Graincorp with a takeover offer of \$3.5 billion which Graincorp has accepted. The bid must still be approved by Australian regulators before it can be finalized.

Consolidated Bulk Handling (CBH) is the main provider of grain storage, transport, marketing and export services in Western Australia (WA). CBH is a grower cooperative that was founded in 1933 during the Great Depression as a means of reducing costs to growers. CBH currently operates 197 receival points including four bulk export terminals. In 2002 CBH expanded from being just a bulk grain handler to also marketing grain by merging with the grower-controlled Grain Pool of Western Australia. At the time the Grain Pool had exclusive rights to export barley, canola and lupins from WA. Recently two new companies have entered the WA market with plans to build port facilities at Albany and Bunbury in WA which will increase competition.

In Victoria grain handling is split between Viterra (now Glencore) and Graincorp. Viterra operates 100 grain receival sites across Victoria and South Australia (SA) including 7 port terminals in SA. In addition to bulk grain handling and marketing Viterra is the major malt producer in Australia and supplies a range of agricultural products including fertilizer, seed, crop protection and agronomy services.

The Australian Bulk Alliance (ABA), Queensland Bulk Terminals (QBT) and Louis Dreyfus also each operate one grain export terminal.

The structure and ownership of bulk grain handling and export facilities is one of the major reasons for the difference of opinions regarding deregulation. One of the most major contributions of the AWB and the WEA was the consolidation of information on bulk handling capacity, stocks and exports. With the closure of WEA this source of information has been discontinued and limited data can now only be obtained directly from each bulk handler or exporter. Under WEA regulations exporters were obliged to update shipping stem information daily but this requirement has also disappeared which may result in data gaps and differences in the reliability of data from different companies.

The bulk handlers largely prefer this scenario as they have more control over the information and can use it to their advantage in setting prices. One of the major reasons the Western Australian (WA) wheat producers supported deregulation is that the majority of grain in WA is stored and transported

exclusively by CBH. Conversely in New South Wales, Victoria and Queensland there is greater capacity for on-farm or private storage and transport. The Western Australian lobby group, the Pastoralists and Graziers Association argued that this gave an unfair advantage to the eastern states as they could easily access information on WA stocks but WA could not access the same information for the east.



Figure 1 Australian bulk wheat export facilities

Conclusions

Deregulation of the Australian wheat export industry will have been a decade long process once the final port access requirements are removed. From an international perspective the desire was to remove monopoly powers and reduce trade barriers. At the domestic level the hope was that greater competition between exporters would result in better prices for growers. While the number of exporters has increased, the industry is still characterized by a few large operators as well as some smaller ‘boutique’ operations which will rely on niche marketing opportunities to remain viable. For large growers who have the capacity to negotiate prices with several potential buyers this is a positive but many smaller growers may have been negatively affected. It is difficult to discern the impact of deregulation on the wheat price overall as many other seasonal factors affect average prices.

What is clear is that deregulation has created opportunities for some companies to expand their business and increase value. The bulk grain export industry has elements of a natural monopoly due to the limited number of accessible ports and the physical restraints imposed by those environments. As a result there are a limited number of operators who can control these facilities and who then have a certain amount of power over other potential grain marketers. For companies such as Graincorp who own grain handling facilities as well as providing marketing services the advantages have been obvious and their desire is for even greater flexibility within the industry.

Back-to-back record crops have also allowed a number of smaller grain exporting firms to become established however these are likely to be more exposed to seasonal fluctuations in grain production and price which may see them swallowed up by larger operators in a poor year. The presence of these operators was the reason for the port access rules. The challenges experienced by the industry in developing these rules are an indication of the difficulty in achieving a balance between market flexibility and ensuring competition when a market is naturally prone to monopoly.

Unlike the red meat industry, the Australian grains industry does not have a single peak body which is responsible for international marketing. Several industry members have raised concerns that there are no longer independent technicians employed to assist grain purchasers with optimal milling and making techniques. In response Graincorp has established their own test milling and baking facility to ensure the quality of their product but smaller operators do not have this option.

Australian grain has always had a reputation for being high quality and relatively disease free. The challenge for the industry in the coming years will be maintaining this status in the face of climate change and increasingly high demands from consumers regarding food safety, provenance and environmentally-friendly standards of production. To do so will require a certain level of coordination and cooperation, the prospect of which is not certain at this point.