



WHEAT EXPORT MARKETING BILL 2008

Second Reading

By Senator Mathias Cormann on 16 June 2008

[Senator CORMANN](#) (Western Australia) (9.15 p.m.)—As a Liberal senator for Western Australia I support the [Wheat Export Marketing Bill 2008](#) and what it sets out to achieve. I am pleased that the government has taken on board many of the issues and recommendations identified by the Senate inquiry into this bill. Our leader, Dr Nelson, has flagged a small number of further amendments which we believe will improve the proposed system. This legislation will give wheat growers a choice on how to market their wheat. The accreditation of multiple sellers will introduce competition among those who want to sell the growers' wheat on the export market, helping to ensure that growers get the best available price for their wheat. It will introduce competition and a greater level of transparency into supply chain arrangements, helping to put downward pressure on costs. And, of course, it will give growers certainty in terms of the arrangements that will apply to the export of their wheat from the 2008 harvest onwards.

As policymakers, our overarching objective should be to achieve a legislative framework that enables wheat growers to maximise their returns. The returns that actually matter to growers are not their gross returns, but their net returns. I am sure that all senators would appreciate that. The past arrangements have failed wheat growers in that regard. The current transitional arrangements run out by the end of June and they have to be replaced by something that is both workable and bankable, and will enable wheat growers to maximise their net returns.

Unlike wheat growers on the eastern seaboard, wheat growers in my home state of Western Australia rely nearly exclusively on exports. Of the wheat that is grown in Western Australia, 90 per cent plus is exported. In some years, Western Australia has made up almost all of the export pool. South Australia is in a similar, if not quite such an extreme, position. Growers on the east coast are able to benefit from the advantages of a deregulated market in their main market—namely, the domestic market. In contrast, growers in Western Australia and South Australia under the past and the current systems have been restricted in how they market their wheat in what is their main market—namely, the export market. As the main contributors to the national pool over many years, the Western Australian wheat growers have carried a disproportionate proportion of the costs of the inherent inefficiencies and inequities in the single desk arrangements.

The most recent iteration of the past system consisted of a publicly listed corporation controlling the single desk and the export of all wheat through the national pool. The system as it existed provided an inherent incentive for the corporation, through its subsidiaries, to maximise its return from the pool, rather

than to maximise the net return for the pool and ultimately growers. I will just pick up on a few examples which have been covered in the 2007 *Growers report* by the regulator, the Export Wheat Commission.

In making an assessment of the freight charges that were applied to a sample of 39 vessels, the Export Wheat Commission found that exporting wheat growers would have been \$14.5 million better off if independent brokers had been used and the services had been tendered in the open market, rather than keeping the freight services in house through one of the AWB subsidiaries. Despite this very concerning finding, to date the Export Wheat Commission has not made any further in-depth assessment, as far as I am aware, of the additional costs carried by exporting wheat growers across all of the 733 vessels. However, Western Australian industry experts estimate that the figure across all vessels is well in excess of \$200 million. That is \$200 million that came off the net return for exporting wheat growers and went straight into the then AWB bottom line and into a combination of dividends to shareholders and performance bonuses for then AWB senior executives.

Answers provided by the Export Wheat Commission during the Senate inquiry about AWB's hedging activities under the old system also point to an inherent flaw in the system. Again, the incentive to maximise returns from the pool for shareholders was in direct conflict with the stated objective to ensure a maximum return for growers. To give a demonstration of that I will read some extracts of an article that appeared in the *West Australian* on 20 April 2007. When facing criticism for not letting the share market and farmers know about the extent of the more than \$360 million in losses it was facing on the futures market, AWB's defence was that 'it was not material to its share price,' that in effect it had no impact on its share price. Why? I quote the article:

... an AWB spokesman said potential futures losses were borne by the pools, and therefore growers, not the company. "It's not material to AWB Ltd and there was no need for disclosure," he said.

So if there is an upside and there is a profit from futures trading, growers have to share it with AWB Ltd and AWB Ltd shareholders. But if things go wrong, the cost is carried by the pool in its entirety. I am not even criticising AWB on this; they were operating in a flawed system. I am criticising the system that facilitated this circumstance where AWB Ltd was able to speculate on the futures market without itself facing the consequences of taking on excessive risk. Instead they were able to benefit from any gains as a result of taking on that risk. So the benefits of futures trading were shared between AWB Ltd, its management, shareholders and growers, whereas all losses were passed on to the pool and growers. How is that fair? Pursuing its shareholders' best interests rather than the growers' best interests is of course what AWB would do, if that is what they can lawfully do under the protection of a statutory monopoly on wheat export marketing arrangements. However, as policymakers we should not be continuing to endorse a system that allowed this to happen.

There clearly is a great diversity of views among growers, as there is a diversity of views among those who want to preserve a single desk. I have considered very carefully all views and all arguments that came forward in the course of the Senate inquiry. Naturally, I approached the issue from the perspective of someone who believes in the benefits of a free market. On balance, I believe that the majority of wheat growers in my home state of Western Australia have come to the view that the days of the single desk as it existed in the past are over. There now is an anticipation by many that they will be able to take advantage of the opportunities under this new system.

I will read out a couple of quotes from evidence given by wheat growers from Western Australia who appeared before the Senate inquiry. The first is from Mr Peacock, who is a 40-year-old farmer from the mid-west of Western Australia:

I am a fourth-generation wheat grower. I strongly support the legislation. As a young man coming into agriculture, probably one of the overwhelming sentiments that farmers talked about was that the big hassle of being a farmer is that you are a price taker. I believe that under the old legislation we were the ultimate price takers. We had no option to do anything else—to be entrepreneurial, to be a free marketer or to find a way to value-add our product. There was no incentive whatsoever to do that. I believe that under this legislation, for the first time in my life—and I did not believe I would see it in my lifetime—small growers like me have at last the opportunity to employ some of our entrepreneurial skills to try to come above the average. There is incentive now to do better than the average, to do more than just be a subsistence survivor.

And this is from Mr Halbert:

I am here in a private capacity. I am a grain grower from Three Springs, which is 300 kilometres north of Perth. ... I am strongly in favour of this legislation. In WA we have seen a cooperatively owned grain pool which held the single desk for barley, canola and lupins. The competition introduced when the GLA were introduced—and they have even admitted this themselves—forced them to sharpen their pencils. Under a legislated monopoly there is no incentive for them to seek new markets or for them to reduce supply chain costs and general marketing costs.

Even from those who have traditionally been opposed to deregulation of the single desk, there is an acceptance, albeit a reluctant one, that this new system of accrediting multiple sellers will become a reality from this harvest onwards—like the Western Australian Farmers Federation. Indeed, they have already entered into and announced a commercial arrangement with the Emerald Group to offer a special pool to members of the WA Farmers Federation in anticipation of this bill becoming law.

Even those who continue to support the single desk do not all support the same single desk. Talking to wheat growers in Western Australia, it is clear that some are talking about the statutory single desk that used to be underwritten by the Commonwealth government. Others want to see the single desk and the right of veto remain with the publicly listed AWB as a statutory monopoly. Others say we should keep the single-desk arrangements with AWB 'with some adjustments'. Others are simply worried about the unknown. We should take those concerns quite seriously and continue to communicate with farmers, who are worried about the impact of this legislation, to ensure that they can take best possible advantage of the opportunities offered by this legislation.

The reality is that, with the end of the single desk, wheat export arrangements will move towards similar arrangements that apply to the domestic wheat industry, other grains and bagged and containerised wheat. And they will move towards the same deregulated system as operates for virtually every other commodity—including those that are often produced on the same wheat belt farms. Even the AWB under its new management is getting ready for the new world and embracing the system proposed under this legislation. During the Senate inquiry, I referred a number of times to a press release put out by the AWB Managing Director, Gordon Davis, where he said:

... the proposed wheat export accreditation scheme provided the opportunity to introduce competition and choice with appropriate regulatory protections into wheat marketing and to lower the cost of AWB's services to wheat growers.

Some legitimate concerns were raised during the Senate inquiry, particularly regarding port access and the potential behaviour of the legacy monopolies held by CBH, GrainCorp and ABB over storage and handling infrastructure. It is very

important, however, that the system be allowed to evolve commercially without being strangled by excessive regulation. I guess the point here is that we have to get the balance right. We have to ensure that we take those concerns on board and find a way of responding to them and addressing them appropriately without strangling any attempts to resolve and address some of these issues, including legacy issues, commercially. I believe that this legislation, once amended in line with the amendments floated by Dr Nelson, will get the balance right. In my home state of Western Australia, CBH has made a good start with its grain express model but, like all participants in the market, CBH will need to act honestly and commercially if it is to retain the goodwill of growers.

As I mentioned in my introduction, this legislation will give wheat growers choice in marketing their wheat. It will introduce competition among those who want to sell the growers' wheat on the export market, helping to ensure that growers get the best available price for their wheat. It will introduce competition and a greater level of transparency into the supply chain arrangements, helping to put downward pressure on costs. And it will give growers certainty in terms of the arrangements that will apply to the export of their wheat from the 2008 harvest onwards. Most importantly of all, it offers a better system to wheat growers aiming to maximise their net returns and, as such, I believe it should be supported by all.

In closing, I would like to congratulate the Pastoralists and Graziers Association of Western Australia for having pursued this issue with great rigour and integrity for some time. And I would like to congratulate my Western Australian colleagues Wilson Tuckey, the member for O'Connor, and Senator Judith Adams for their tireless efforts in helping to bring about the change that we are debating today. Wheat growers across Australia, particularly in our home state of Western Australia, will be better off as a result of their persistent efforts over a long period of time.