

13 November 2009

**Wheat Export Marketing Arrangements
Productivity Commission
Locked Bag 2
Collins Street East
Melbourne Vic 8003**

SFMCA Submission

The Stock Feed Manufacturers' Council of Australia (SFMCA) is the peak industry body representing Australian feed manufacturers. SFMCA members manufacture over 5.5MMT of animal feeds annually. Wheat is the major grain used within animal feeds.

This submission addresses Issue 4 "Information provision and market transparency" and Issue 5 "Wheat classification and market segmentation" provided within the Issues Paper. The following comments relate to the questions posed within the Issues Paper.

INFORMATION PROVISION AND MARKET TRANSPARENCY

Is the information currently provided by the ABS and ABARE useful and timely?

The Australian grain market is limited in the amount of accurate and timely information that is published relating to grain stocks and demand. Both ABS and ABARE provide data as follows: ABS Wheat Stocks and Use – this provides essential information allowing the end user markets to assess the level of grain held for supply within the market. The monthly report allows the market to assess the amount of grain held post harvest and the rundown of this grain stock through the year. The ABS Wheat Stocks and Use report identifies that in December 2008 there was 14.49 million tonnes of wheat held by bulk grain handlers, this stock had declined to 3.42 million tonnes at 30 September 2009.

It is of note that the wheat stocks held by Australian end users is relatively low, ranging from 630,000 tonnes in February 2009 down to 317,000 tonnes in September 2009. Historically Australian domestic wheat users have been reliant upon accessing stocks of grain held by the AWB, this often being pool wheat. With wheat industry deregulation, access to wheat stocks is now spread across many additional companies. Access to bulk handler stocks information is critical information to ensure that the Australian market operates in a fair and transparent manner.

The major difficulty should wheat stocks cease to be published will be market distortions during years of reduced wheat supply, such as has occurred in recent years due to drought. During these periods domestic users and government agencies such as AQIS need to assess the potential likelihood of there being insufficient grain and trigger points that will require grain to be imported to meet domestic demand. The major grain bulk handlers have access to their own data relating to grain stocks and have an unfair advantage over domestic users should they not have access to grain stock information.

SFMCA would like to see additional supply and demand data available. In particular the ABS data takes no account of wheat stocks held on farm. We understand that ABARE generates such data on an annual basis, using farmer survey results gained in January each year. Such data needs to be more frequent to allow the market to combine bulk handler, end user and on farm stocks to gain a complete appreciation of what wheat remains within Australia.

It should be noted that grain has been imported into Australia in two of the last ten years. With increasing harvest variability, as crop growing conditions result in less reliable volumes, there will be an ongoing requirement for Australia to have relevant stocks information to allow the country to address grain importation needs.

The SFMCA strongly supports the continued provision of both ABS and ABARE reporting.

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

The SFMCA is unaware of the internal mechanisms used by ABS in collecting stocks data. Although it would seem an extended period from month end until wheat stocks are published around five weeks later, we recognise the difficulty ABS has in obtaining data from industry.

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

Reference is made to the S & D reporting provided by USDA for grains within the USA. This level of information allows the US market to be fully informed with respect to wheat production, stocks, use and stock movements. Any market information less than that provided within the USA is seen as limiting the Australian market transparency and opportunity for all participants to operate equally.

The essential elements of S & D reporting are seen to be:

1. Monthly stocks held by bulk handlers, including major grain traders/marketers operating storage sites.
2. Quarterly stocks held on farm – derived from farmer surveys.
3. Monthly stocks held by end users.
4. Monthly grain contracted to either domestic or export markets.
5. Monthly grain use by major end users.

The minimum level of data breakdown must be by state. More consolidated data greatly limits the usefulness of the data. Due to large distances between Western Australia, South Australia and the larger domestic east coast domestic grain use, State data is required.

The funding should be from government. As discussed, there is public benefit in ensuring grain security for the supply of food products within Australia. Without retention of public release grain stocks and use information, there is an increased risk that Australia will not be aware of a run down in grain stocks. Unlike former years where the AWB had access to wheat stock information, under the deregulated market there is no longer any one entity that has knowledge of the countries wheat stocks. As grain stocks rundown from one harvest period to the next, a lack of public release information results in grain market price escalation, beyond import parity pricing, and potential market manipulation. SFMCA believes there is sufficient public benefit for the Federal Government to continue the provision of funding for stocks and use data gathering and reporting.

With what frequency should information be provided?

Minimum monthly reporting is required. Less frequent reporting will make the data less relevant. The wheat market can change quickly depending upon climatic conditions affecting crop production and grain demand. SFMCA supports the retention of monthly stocks and use reporting.

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?

SFMCA believes government needs to be actively involved in the gathering and reporting of wheat S & D information. We believe this provides public benefit and that if left to industry the control of market information will be held by a small number of large companies controlling wheat stocks. We believe that without government funding to support information collection through ABS and ABARE, there will be a decline in competition which will detrimentally affect both grain growers and end users. We believe ABS is the only independent body with credibility and capability to obtain and publish wheat stocks and use information. Without government support, there will be no direction requiring larger bulk handlers to provide stocks data.

WHEAT CLASSIFICATION AND MARKET SEGMENTATION

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

We recognise the QA capabilities of the companies holding wheat export licences, there are however many farmers, transport companies and smaller grain storage sites that deliver grain to these export companies that do not have accredited quality assurance programs. The industry currently relies upon defined receival standards and contractual obligations; we would however like to see a far greater uptake of HACCP based QA programs by grain growers, transport operators and storage handling agents.

Reference is made to “commercial incentives placing a check on the quality delivered”, we see this as an outdated view, as having minimum quality control standards is now seen by most industries as a minimum requirement to supply. The concept of gaining incentives for having quality control programs in place does not occur in practice. The Australian wheat industry is exposed through a lack of industry wide action in implementing on farm QA. We recognise the very positive steps taken with Western Australia to ramp-up on-farm QA and we would encourage the grains industry in other states to implement similar programs.

We believe that due to a greater number of exporting companies operating within eastern Australia, this has limited the moves to either promote or enforce on-farm QA. We believe there is justification for joint government and industry activity to promote and implement grains industry on-farm QA. If left to market forces this is more likely to see a drop in QA standards that could have a detrimental impact upon both domestic and export markets.

Is quality control an issue in the domestic market?

Quality control is of equal if not more importance to the domestic market. The SFMCA believes there is insufficient emphasis placed upon on-farm quality assurance programs within the wheat industry to satisfy end user markets as discussed above. The most significant risk area from a lack of on-farm QA is chemical use. With the greater volumes of grain being stored on farm and growing level of storage insect resistance to available fumigants and grain protectants, there is greater risk that chemicals may be misused.

Without a wide adoption of on-farm QA we see this as a risk for end use industries such as stockfeed manufacturers and the livestock that are fed.

Summary

In summary, the basis of this submission is to make the point that Australia needs adequate information to allow the market to function in an open and transparent manner. ABS Wheat Stocks and Use information reporting is seen as a minimum requirement and is of value to domestic feed market grain users. SFMCA believes this reporting should continue with Federal Government funding to provide this public good benefit. Without government supported S&D



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data being available, a lack of information about grain stocks results in a loss of market transparency. Both the domestic and international markets need to operate without hindrances occurring through inadequate grain stocks and use information. This market hindrance becomes greater during years of reduced grain availability.

There is seen to be reasons for government support to be provided to ensure Australian wheat production is enhanced through the promotion and implementation of on-farm QA programs.

Yours sincerely

A handwritten signature in black ink, appearing to read 'J. C. Spragg', with a stylized flourish at the end.

John Spragg
Executive Officer
SFMCA