Wheat Industry Advisory Taskforce

Inquiry into Stocks Information

Submission

W.A. Grains Group (Inc)

August 2013

CONTACT
Doug Clarke
W.A. Grain Group (Inc) Chairman
PO Box 53, LAKE GRACE WA 6353
Telephone 08 98654041
wagrainsgroup1@bigpond.com
www.wagrainsgroup.com.au
SUBMISSION COVER SHEET
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Please complete and submit this form with your submission to:

Electronic
wheattaskforce@daff.gov.au

Post
Wheat Industry Advisory Taskforce Secretariat
PO Box 858
Canberra ACT 2601

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<thead>
<tr>
<th>Organisation or Individual:</th>
<th>ORGANISATION / INDIVIDUAL</th>
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<tr>
<td>Principal contact:</td>
<td>Doug Clarke</td>
</tr>
<tr>
<td>Position:</td>
<td>Chairman</td>
</tr>
<tr>
<td>Phone:</td>
<td>08 98654041</td>
</tr>
<tr>
<td>Mobile:</td>
<td>0428654032</td>
</tr>
<tr>
<td>Email address:</td>
<td><a href="mailto:wagrainsgroup1@bigpond.com">wagrainsgroup1@bigpond.com</a></td>
</tr>
<tr>
<td>Street address:</td>
<td>141 Gordon Road</td>
</tr>
</tbody>
</table>
| Suburb/City:                | Lake Grace               | State: | WA  
| Postcode:                   | 6353                     |

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1.0 Introduction

The WA Grains Group (Inc) (WAGG) is a grower financed, and grower driven group, focused on delivering economic gain to growers.

The objects of WA Grains Group are:

i) To represent the Western Australian grain industry in the areas of production, marketing, plant breeding, agronomic development, storage and handling, processing, bio-security, transport and any other issues in order to promote, sustain and safe-guard the Western Australian grain industry in the longer term.

ii) To encourage profitable and sustainable production and marketing of the Western Australian grain crop.

iii) To carry out, promote or assist in activities of any kind associated with the development, production, handling, processing, promotion and competitive services of Western Australian grain and its derivatives.

2. Key Points of Our Submission

- Wheat Export Market Bill 2012
- Basics of Economics
- Effect of non-transparent stock disclosure on the Australian Futures Market
- World Market
- Further evidence of Market Failure
- Who should be responsible for providing the stock information
- Industry in Transition

Wheat Export Market Bill 2012

The Wheat Export Marketing Bill 2012 never passed the first reading until, stock disclosure, port access and integrity of cargo was included as an amendment, and then the Bill was passed. This would indicate that the status quo was not acceptable or the Bill would have passed in the first reading. The Chair of the Wheat Industry Taskforce has recommended status quo which is the equivalent to the first reading of the bill, which was unacceptable to the Australian Parliament. We concur, this is not acceptable.

Basics of Economics

The basics of economics is supply and demand. If buyers don’t know what is available (supply) they do not know what price to offer (demand). Marketers therefore add in a risk premium which results in a discount to what they can offer the farmers. In our opinion the withholding of the stocks disclosure is market failure for farmers.

Stocks disclosure is about making the market transparent, fair and equitable. Currently the companies that have the information on stock are those that also own the bulk handling facilities (except Emerald). The problem was that the Bulk Handlers were cooperatives set up by farmers, historically they were only bulk handlers and disclosed the stocks. Since deregulation they have been given the opportunity to become marketers and therefore have restricted the information, one can only assume that this is because they have a market advantage to withhold this information, therefore this is an example of market failure.
The Future of the Australian Futures Market

Chris Aucote, president of the Australian Grain Exporters Association stated at the Australian Grains conference in Melbourne on the 30th of July 2013 ‘that the majority of exporters would like to have stocks disclosure’. It would appear that the majority of the opposition to stock disclosure is coming from Exporters that are also Bulk Handlers.

There needs to be sharing and publishing of grain stocks information so that grain futures can develop to its true international potential in Australia. This could become the Grain Futures Industry that the greater Asian region will look to for price discovery and trade, as it will have more relevance than the Chicago Board of Trade.

Without stocks disclosure there is no transparency for the futures market, people need to know the stock availability so that they can take the other side of the trade.

If we draw a parallel to the Stock Market, the withholding of the stocks information would be classed as insider trading as “Its information that's not generally available, which is likely to have an effect on the value of a financial product.”

Does the grain market come under the corporations act? If so then the following would apply “The underlying policy of the corporations act is (essentially) that markets should be organised in a way that encourages all investors to trust that they will be treated fairly. Any appearance that the markets allows insiders to trade using their inside information against investors at large will harm that trust and discourage participation in those markets”. If not, then why is it that the lack of information is detrimental to all markets but the grain market?

We believe lack of stocks disclosure in Australia is distorting the Australian futures market, resulting in lack of confidence, with contract volume decreasing.

Peter Reading stated in his document that “in discussion with industry, an estimate of the potential price benefit of stock disclosure was in the order of $2-$3 per tonne to growers.” Without transparent fundamentals (stocks disclosure) price discovery is distorted, more risk is put back onto the growers, which we find to be unacceptable.

World Market

While Australia is a small producer in the overall world market we are a major player in the export trade and it is just as important in Australia have stocks disclosure as it is in Canada and the USA.

African farmers compete against One Billion Dollars per day in agricultural subsidies. The Doha development agenda and the Cairns Group have sought the reduction of agricultural subsidies which has failed to materialise, in fact subsidies have increased. Australia has always asked for a level playing field when it comes to free trade, however the Wheat Industry Taskforce have recommended to leave things as they are which is no stocks disclosure, this does not lead to transparency and fair trade.

Further evidence of Market Failure

CBH currently are offering unlimited oil bonuses on Canola. The only way a marketer or trader would be able to achieve this is if they knew where the stocks and stacks of Canola with the high oil content is for outturn. If the monopoly company holds the grain, knows the stock available, controls the supply chain and ports, (including shipping slots capacity) then is also a marketer, it is a conflict of interest, and the result for all others involved is market failure.
The bulk handlers are not in favour of stocks disclosure, they say it will be to the advantage of the grower. Refer to the GrainCorp submission to Senate Rural and Regional Affairs and Transport References Committee, “Calls for the release of previously unpublished information on grain receivals, and grower warehouse stock by stock, by site and by grade, represent an attempt by grain traders to reverse the shift in market power back to growers.” Therefore the current situation represents lack of market power for growers resulting in a reduced price, which is market failure for growers.

“Similarly, WEA has stated that the current unequal access to information regarding wheat stocks results in a significant marketing advantage to the associated accredited exporter of the BHCs. WEA explained that:

1. Exporters without an associated BHC have consistently indicated to WEA that to have information on stocks available on a silo by silo basis would substantially aid pricing and help target purchases and stock swaps. They consider that having this information would have positive implications for both domestic and export industries.

2. Additionally, these exporters have indicated that this information should be made available on an upcountry silo basis with the data aggregated by grade and warehouse position. Aggregated data would ensure that no individual grower is identified.

We are of the opinion that without stocks disclosure and everyone having access to the information, this is, market failure

Who should be responsible for providing the information

The Industry Expert Group believed the availability of the wheat stocks information was essential for industry participants to develop, their production, marketing and technical strategies. The Australian Bureau of Statistics (ABS) previously provided the wheat stocks information and we believe the ABS should be reinstated to this position for the ‘industry/public good’. The ABS holds a considerable advantage over other delivery options, as it has regulatory powers to ensure participation.

We find it hypocritical that in Western Australia farmers planting information and production figures are provided to industry however farmers are not able to have the States production figures by grade and port zone on a weekly basis during harvest and then monthly after harvest.

Industry in Transition

The Wheat Industry Taskforce has acknowledged that the Wheat industry it is an industry in transition and therefore we claim that the appropriate financial laws and regulations have not yet been put into place to; enhance the integrity, efficiency, competitiveness, and stability of the Wheat Industry; promote market discipline and maintain investor confidence.

The Wheat Industry needs to consolidate to achieve the transparency of an open market therefore building the integrity, efficiency, competitiveness, and stability required as well as promoting investor confidence.

Executive Summary

The WA Grains Group (Inc) (WAGG) is a grower financed, and grower driven group, focused on delivering economic gain to growers.

The WA Grains Group presents this submission to the Inquiry into stocks information to provide a grower point of view to the Wheat Industry Taskforce.

The WA Grains Group believe that all major grain and oil seed commodities should be reported by grade and port zone on a weekly basis during harvest and then monthly after harvest. Stock carryin and carryout from previous seasons by port zone should also be disclosed prior to harvest.
If the Australian Farmers are to have any hope of success in the world market there needs to be a free and open market with stock disclosure in the Australian Wheat Industry just as there is in Canada and USA which are our major competitors.

References
2. Ensuring a ‘Level Playing Field’ by Peter Reading May 2012 page 25, 9
3. Senate Rural and Regional Affairs and Transport References Committee Inquiry into The Wheat Export Marketing Bill 2012 page 55, 4.26 (GrainCorp Operations Ltd, Submission 12 page 8),
4. Senate Rural and Regional Affairs and Transport References Committee Inquiry into The Wheat Export Marketing Bill 2012 page 56, 4.32 (Wheat Exports Australia, Submission 7 page 5),
   • ASX submission to the Rural and Regional Affairs and Transport Senate Committee Inquiry into The Wheat Export Marketing Bill 2012
   • Dodd–Frank Wall Street Reform and Consumer Protection Act
   • Insider Trading and Market Manipulation ‘A speech by Tony D’Aloisio, Chairman, Australian Securities & Investment Commission’
   • A preliminary assessment of wheat export industry stocks information requirements Discussion Paper Prepared by the Wheat Industry Advisory Taskforce
   • Doug Clarke’s Submission to Wheat Export Marketing Consultation Committee 2007