



Agricultural Competitiveness Taskforce

RESPONSE TO THE AGRICULTURAL COMPETITIVENESS GREEN PAPER

December 2014

INTRODUCTION

Co-operative Bulk Handling Limited ("CBH") notes the Agricultural Competitiveness Taskforce's Green Paper which seeks to incorporate the views of the Australian stakeholders for improving the competitiveness of Australian agriculture.

In line with its submission to the Taskforce's Issues Paper, CBH welcomes the Federal Government's focus on the matter of agricultural competitiveness as a means of providing a platform for enhancing the contribution of agriculture to economic growth, employment creation and national prosperity, through increased innovation, productivity, investment and trade.

This sentiment is very much in line with CBH's purpose; to create and return value to the grain growers of Western Australia.

As Australia's biggest co-operative controlled by 4,200 Western Australian grain growers, CBH is broadly supportive of the Agricultural Competitiveness Taskforce's Green Paper and would make the following more specific comments as a means of clarifying this endorsement.

CBH'S RESPONSE TO THE AGRICULTURAL COMPETITIVENESS TASKFORCE GREEN PAPER

1. Infrastructure

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"The Government is committed to upgrading existing infrastructure across Australia and reducing transport costs... Options are also sought on areas where transport regulation can be amended or removed to improve the efficiency of the transport system and reduce business costs."

CBH is fully supportive of Federal Government efforts to ensure that primary producers have access to inland transport infrastructure that is both efficient and effective. Central to this is ensuring that access to this infrastructure can be undertaken within a regulatory framework that is both fair and sustainable over the longer term.

As outlined in CBH's Issues Paper submission, the growers of Western Australia have recently encountered a range of problems in accessing Western Australia's Grain Freight Rail Network ("WAGFRN") that if left unaddressed will make them increasingly less competitive with grain growers from other international origins of supply (see below).

CBH would encourage the Federal Taskforce to ensure that where future investment is undertaken to enhance transport infrastructure (along with changes to attendant regulatory frameworks), that a nationally consistent approach is adopted that has as a priority, growers' ability to access that infrastructure for the purpose in which it was intended; in the case of Western Australian grain growers, allowing them to convey their product to port and on to international markets as efficiently as possible.

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Efficient and cost-effective transport infrastructure is vital to the competitiveness of the agriculture sector. Stakeholder feedback indicates concerns about bottlenecks and problems accessing transport routes where agricultural produce is grown, at intermodal hubs and at final destination ports.

Inland transport infrastructure is clearly a critical element for the nation's agricultural sector. The Western Australian grain supply chain (roads, storage, rail and port operations) is fundamental in allowing grain growers to convey their product to port and on to international markets. Given this importance, CBH would encourage Infrastructure Australia in carrying out its audit of *Nationally Significant Infrastructure* (and subsequent development of the 15-year infrastructure plan (page xvii)) to be cognisant of the ongoing challenges growers in Western Australia face; in particular the problematic nature of growers accessing key rail transport infrastructure.

As outlined in CBH's Issues Paper submission, the 49 year lease for the Western Australian Grain Freight Rail Network ("WAGFRN") is currently held by various Brookfield entities and operated by Brookfield Rail; part of the Canadian based Brookfield Asset Management Group.¹

Over the first phase of these Lease arrangements, the fundamentally different motivations regarding operation of the WAGFRN between Brookfield Rail and the growers of Western Australia have become obvious. Brookfield is seeking to operate the rail network in order to maximise profit on behalf of its shareholders notwithstanding that its profit maximisation inflicts a comparatively greater economic loss on the Western Australian economy. Meanwhile, the growers of Western Australia, as users of the track, are deprived of the most efficient and effective transport network possible in order to transport grain to their local and international markets.

These two objectives continue to evolve as being mutually exclusive; for example:

- Brookfield Rail is seeking to close those sections of the WAGFRN which it claims are unprofitable, without surrendering them to an alternate user on the basis that it can continue to raise revenue and margins from a truncated rail network without increasing its own productivity. This behaviour is indicative of a true monopoly asset, as it can be run without regard to the interests of its customers. These closures are sought despite those assets remaining an important component of the local supply chain, the use of which would avoid increased costs being passed onto growers and the community;
- Rail performance standards are decreasing while access fees are increasing:
 - Below rail track access constitutes around 40 per cent of a grower's freight costs; average access cost are \$7-8 per tonne across Western Australia;
 - Western Australian grain growers are paying around four times what growers in eastern Australia pay for track access (on tracks that have higher speeds/mass);
 - Freight rates in Canada and USA are 30-50 per cent lower than Western Australia; and
 - Despite plans to close over 800 kilometres of track, Brookfield Rail has proposed a significant increase in access fees.

As outlined in CBH's submission to the Issues Paper, central to this is Government striking a balance between creating an incentive for investment and where that investment involves true monopoly infrastructure (railway lines and roads) ensuring that the users of that infrastructure have some assurance that they may continue to access those facilities with reasonable service and pricing.

¹ The Lease expires in 2049

2. Competition and regulation

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“The Government is committed to ensuring competition laws in Australia enable a competitive marketplace—for example, by preventing the misuse of market power and allowing for appropriate collective bargaining by farmers”

CBH is supportive of Government efforts to develop policy that targets a reduction of supply chain competition laws as this type of regulation invariably leads to increased costs, inefficiencies and market distortion that is all ultimately borne by the grower.

Where monopoly infrastructure is owned by the growers a different regulatory approach may be considered as the incentives for operating member owned infrastructure are different to the incentives and requirements of investor owned infrastructure.

In the example of Port Access Regulation, as a grower co-operative CBH clearly has no incentive to exclude or hinder access to their export terminals by either Australian growers or the grain marketers that buy their grain. Furthermore CBH is driven by their membership to offer open access arrangements for all of their storage and handling facilities in order to drive competition for growers' grain and increase exports from the State.

However, previous Port Access Regulation has cost the growers of Western Australia approximately \$1 million in direct costs per annum in ensuring compliance with the access regulation as well as considerable opportunity costs arising from the regulatory inertia and delays associated with access regulation.

In Western Australia CBH is regulated under the Bulk Handling Act 1967. This exclusively applies to the CBH Group and requires it to receive all grain tendered (provided it is reasonably convenient) at up-country storage and handling facilities (section 42) and port terminals (section 19). New entrants to the WA storage and handling market are not bound by the Bulk Handling Act and are therefore able to set up storage, handling and port facilities that can effectively service niche areas of WA or 'cherry pick' the WA grain market while still enjoying open access to the CBH system.

Australian growers are challenged to compete with grain produced on a global scale in countries with significantly less regulatory burden and often supported by foreign government subsidies. In this instance regulating CBH to offer open port access would add additional costs to growers by effectively attempting to protect the growers from their own business.

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“Increasing the resources of the ACCC, including specialist agribusiness knowledge, and requiring the ACCC to publish more information on investigations and their outcomes.”

CBH would welcome the opportunity for industry stakeholders to develop a more collaborative relationship with the regulators that fosters an environment of greater knowledge transfer and a regulatory environment that enables a competitive marketplace.

Caution should be exercised in relation to the publication of investigations and outcomes in order to avoid reputational damage arising when no basis for further action is warranted. Blanket requirements to publish may unnecessarily damage either industry or the ACCC.

Further, the interaction between collective bargaining and other provisions of the Competition and Consumer Act provisions in Part IV of the CCA will need to be considered carefully to ensure that the rights of growers to protect themselves are not inappropriately reduced.

3. Foreign investment

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“Improving Foreign Investment Review Board (FIRB) scrutiny of investment proposals in the agriculture sector, including improving the transparency of foreign investment: Expanding the coverage of the register of foreign ownership of agricultural land to water

and agribusiness enterprises would improve transparency and allow for a more informed debate about foreign ownership.”

CBH is not opposed to foreign investment; on the contrary. In line with CBH's submission to the Issues Paper, the Australian grain industry like any sector needs access to appropriate levels of capital to facilitate industry expansion and growth. However with foreign investment comes the requirement to understand an investor's commercial goals and the extent to which these are complimentary to local industry; in this case the Australian (and Western Australian grain industry).

Similarly, efforts are made where possible to facilitate local industry in acquiring key infrastructure so that Australian business might better develop the necessary scale of operations allowing them to compete with larger, international participants.

Central to this is a process of engagement between Government and industry, in particular grain growers, to ensure policy is developed that strikes a balance between creating an incentive for foreign investment, but where that investment involves key export infrastructure (ports, railways lines and roads) that the users of that infrastructure have some comfort that they may continue to access facilities with the assurance of ongoing service and reasonable pricing.

4. Education and skills

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“The Government is committed to an education system that builds the next generation of farmers and that reaches students at all educational levels and provides a clear path for people who want to pursue an agricultural career.”

As outlined in CBH's Issues Paper submission, CBH supports the work being undertaken by The Australian Grain Institute Council ('AGI Council') (within the Grain Industry Association of WA) as part of its ongoing mandate to enhance and support capacity building throughout the Western Australian grain industry.

The AGI Council has quite correctly focused attention on the State's ability to source suitable skilled labour to service current and future requirements across the value chain. To this end, AGI have established a new organisation to direct efforts of the industry in Western Australian to coordinate how it may address diminishing workforce capacity.

CBH will be encouraging this new organisation to liaise and engage with Federal Government stakeholders as much as required to ensure an appropriate level of coordination to address this critical issue.

5. Industry promotion

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“Maintaining international competitiveness requires an understanding of, and engagement with, our overseas customers and competitors. Stakeholders have called for improvements to the Government's capacity to assist farmers to access international markets through developing national promotion efforts (such as through a national brand).”

It is CBH's view that it is contingent for marketing organisations (such as CBH) operating in global grain markets to undertake and facilitate an effective link between growers and their international customers. This includes conveying to their local and international customers key quality and brand information such as seasonal grain quality data and functionality traits; critical elements of the competitive grain marketing landscape.

An exporter's accurate communication of this information helps ensure not only their own standing and performance in the marketplace but the ongoing integrity and strength of the Australian wheat "brand". Commercial entities seeking to market and export Australian grain (acting as a link between growers and their markets) will be absolutely cognisant that this brand must be managed and sustained into the future.

While CBH is appreciative of Government's desire to assist in this area, it does not consider that any form of statutory or regulatory entity should undertake this function, or that Government intervention is required to create "market opportunities" for Australian grain or to promote its overall quality to international markets.

That said CBH is aware of a number of organisations undertaking, or seeking to undertake a role in the general promotion of Australian wheat (including Grain Growers Limited and the Australian Export Grains Innovation Centre). While CBH does not seek to comment on any of the specific activities undertaken by these (and other) organisations, it does have concerns regarding the potential for mixed messaging arising out of this "multi-layered approach" and the potential for a disconnect between the promotional activity being undertaken by these third parties and that of commercial participants who have a financial stake in the ongoing and effective marketing and export of Australian grain.

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"The Australian Government is committed to growing our export opportunities by negotiating to remove tariffs and quotas on our products and unwarranted technical restrictions in overseas markets and by ensuring our products are effectively marketed around the world."

Whereas CBH has reservations regarding the need for Government to play an active role in the marketing of Australian grain, it is absolutely supportive of Government to Government activities that enhance trade opportunities for agricultural exports.

CBH considers optimal benefit can be generated when areas such as trade negotiations are undertaken as a collaboration between Government and business so as to avoid potential for unintended consequences. The live export ban to Indonesia, while not a trade agreement, is an example of where a policy decision undertaken in the context of one sector (live cattle exports worth \$200 million annually) can have significant implications for other key industries (annual wheat exports to Indonesia worth in excess of \$1 billion each year).

It is critical that the grain industry, often under-represented in previous FTA consultations is given suitable input and an opportunity for representation in future related delegations with international trading partners.

CBH supports trade initiatives recommended by the G20 to conclude FTA's with Japan and Korea and the push to ratify the stalled WTO Bali package of trade enhancing measures, that works to remove customs barriers and 'murky' trade barriers that will provide more open access for Australian agricultural exports.

6. Focus on cooperatives

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Adopting the Co-operatives National Law—Improved coordination between farm businesses through the establishment of cooperatives were identified by some stakeholders as a good way for farm businesses to achieve greater economies of scale and improved profitability without losing individual control of their operations. State and Territory governments, which regulate cooperatives, have agreed to implement the Co-operatives National Law (CNL), which replaces an ageing and fragmented legislative system

As a cooperative, CBH is obviously supportive of the Agricultural Taskforce's conclusions regarding the extent to which cooperative business models can provide growers with the opportunity for economies of scale and enhanced returns. It is actually part of CBH's Charter that it will offer, where possible, assistance to other groups or entities seeking to form cooperative business models.

The CBH cooperative, rather than being motivated by shareholder dividends and profitability, seeks to invest in supply chain infrastructure and undertakes its business operations in order to ensure Western Australian grain growers are part of an efficient, well managed supply chain that contributes to their farm-gate returns.

Indeed, cooperative structures (such as that of the CBH Group) provide an important opportunity to support the Agricultural Competitiveness Taskforce's desire to ensure that the tax system is not an unnecessary burden and does not create undue barriers to investment in the sector (page 34).

CBH has been seeking to make this point to the Western Australian State Government given its proposed State Taxation Legislation Amendment Bill 2014 which seeks to amend the Duties Act 2008, the Land Tax Assessment Act 2002, the Pay-Roll Tax Assessment Act 2002 and the Taxation Administration Act 2003.

In its submission to the State Government, CBH commented that removal of these exemptions would add significant cost back into the Western Australian grain sector that is fundamentally dependent on exporting grain into an increasingly competitive world grain market. These additional costs are ultimately borne by grain growers with compounding negative economic and social impact on regional Western Australian communities.

While this is clearly a Western Australian State issue, given the views articulated in the Green Paper regarding the extent to which cooperative business models may assist producers increase enterprise profitability, the debate is one that should be noted by the Agricultural Competitiveness Taskforce, in particular, the argument that existing exemptions should be maintained on the basis that:

- As a co-operative owned and controlled by Western Australian grain growers, CBH operates to create and return value to Western Australian growers and to promote the development of the grain industry in Western Australia;
- Over the last 5 years alone, CBH has invested over \$500 million in grain supply chain infrastructure to provide growers with the most efficient, least cost pathway to international markets. This level of investment is unparalleled throughout Australia or the rest of the world and is critical to Western Australian grain growers' long term competitiveness;
- Since 2008 CBH has invested over \$28 million on grain related research and development;
- CBH's co-operative structure allows the organisation to take a longer term view when making investment decisions and without the constraints of short term profit imperatives faced by listed companies. This has allowed CBH to make significant infrastructure investments such as the Kwinana Grain Terminal and more recently the cooperative's \$175 million rolling stock acquisition which have changed the very landscape of the Western Australian grain industry and created considerable supply chain efficiencies;
- CBH has introduced a rebate program that allows any trading, operational or investment surpluses (such as returns from CBH's Asian flour milling investments) to be returned to growers in the format of a rebate from their storage and handling fees. Over the past 6 years up to \$14 per tonne has been rebated to the WA growers; and
- CBH's presence in and commitment to rural communities creates a range of attendant benefits including increased capital investment and enhanced employment opportunities.

7. Education, skills and training, and labour

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Skilled worker visas: The Government offers visa schemes to increase available skilled workers, such as Regional Sponsored Migration Scheme visa (187) and Temporary Work (Skilled) visa (subclass 457) and labour agreements

As outlined in CBH's submission to the Issues Paper, CBH and the Western Australian grain industry has been assisted by the Federal Government's working visa policy that allows tourists (such as "backpackers") to extend their visas based on obtaining work in rural areas. However, further flexibility in the 457 Long Stay Business Visa process is required to attract and secure labour that can remain working with CBH and in rural Australia beyond this initial period.

The 457 Visa is a skilled migration program and only recognises a specific list of skilled labour roles; unfortunately, CBH's Receival Point Operator position was not recognised on the skilled labour list. As such CBH was required to establish a labour agreement to facilitate hiring employees under the 457 visa for remote locations where there is little or no available Australian labour. While the labour agreement has a further two years to run, the task of preparing for a further labour agreement is considerable and CBH seeks to have its Receival Point Operator and Plant Operator roles returned to the list of skilled positions eligible under the 457 visa program. Further we seek to have the qualification requirements reduced when the position being filled is in a rural or remote location.

As an example, the current skill and qualification requires a person to hold either a Certificate III in Transport and Logistics or a minimum of 5 years' relevant experience within the farming or transport and logistics industry. This strict requirement makes it difficult for CBH to maintain employment of staff that have worked on a casual basis for CBH (on a holiday visa) and have the proven skills and ability but don't meet the previous experience criteria.

Considering Certificate III qualification in other industries or giving weight to the willingness to work in rural and remote areas with a limited labour supply would increase flexibility and assist in maintaining our ongoing operations.

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