



Response to the Agricultural Competitiveness Issues Paper

Ensuring Western Australian grain growers remains
internationally competitive

April 2014

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INTRODUCTION

Co-operative Bulk Handling Limited ("CBH") welcomes the Federal Government's focus on the issue 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.

CBH is pleased to provide this preliminary input into the formulation of a Government White Paper that is seeking to address the issues that are in line with the co-operative's own purpose; to create and return value to grain growers of Western Australia.

While this submission responds to the matters raised in the Issues Paper (specifically those that are relevant for CBH), CBH's submission is shaped by a range of key themes that remain fundamental to the prosperity of not just the co-operative and its grower members; but the broader grain industry. More particularly:

- The need for a prevalent policy and investment framework that ensures wherever possible that the farming sector (in this instance - grain growers) can be competitive with producers from other international origins of supply;
- The importance of ongoing investment that increases the sustainability and profitability of primary producers. This includes an understanding of how crucial it is for growers to have access to supply chain infrastructure that transports grain efficiently and effectively to local and international markets;
- An understanding that agriculture and primary production must be supported by strong and vibrant regional communities; and
- The grain industry at a national level is diverse (geographically, agronomically, commercially and in export markets). It is critical that Government undertakes to consult as widely as possible across the grain industry before considering policy, regulation or decisions that may impact the industry.

BACKGROUND - THE CBH GROUP

Co-operative Bulk Handling Limited ("CBH") is a unique organisation with a history almost as long as the grain industry it serves. The co-operative's commitment to maintaining a partnership with its Western Australian grain grower members has helped build an industry that has been the backbone of the State's rural economy since the beginning of the bulk handling system 80 years ago.

This partnership has also been the basis of CBH's strength and success.

CBH has constantly evolved, innovated and grown with operations extending along the value chain from grain storage, handling and transport to marketing, shipping and processing. Now Australia's biggest co-operative and a leader of the nation's grain industry, CBH is controlled by approximately 4,200 grain growers.

The co-operative exists for their benefit and the advancement of the grain industry in Western Australia.

CBH currently employs around 1,000 permanent employees supported by up to 2,000 casual staff during the months of harvest. These employees are located across the co-operative's ten regional offices, 195 receival site locations, four ports, engineering workshops, representative offices in Melbourne, Hong Kong, Tokyo and Portland (USA) and a head office located in West Perth.

The co-operative approach

As a co-operative, rather than being motivated by profit and shareholder dividends, CBH 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. For example:

- In 2010/11 CBH took the decision to pursue enhanced above rail efficiencies by investing \$175 million in new rolling stock (locomotives and wagons) to be operated by a new above rail operator for the dedicated service of grain haulage in Western Australia. These arrangements provide a higher level of reliability, enhanced usage rates and greater productivity and have had a significant impact on the efficiency of the rail task. During the 2012/13 harvest, CBH reduced rail freight rates to growers by an average of seven per cent;
- CBH's Grower Rebate Program allows growers to enjoy a reduction in storage and handling fees on the basis of their patronage with CBH Group. In 2013/14, growers enjoyed a rebate on the storage and handling fees up to \$2.60 per tonne, which promotes their competitiveness in the industry;
- Despite a very challenging cost environment, (labour costs alone have risen between five and six per cent in 2012/13) CBH has been able to maintain storage and handling fees at a consistent level in all but one of the past four years; and
- On the back of ongoing investment in the storage and handling system, the CBH network is the most efficient, and the lowest cost, grain storage and handling system in Australia. During 2013 alone, \$155.2 million was spent on capital expenditure and maintenance activities throughout the network.

The grain industry into the future

CBH and the growers of Western Australia are aware of the many future challenges to grow and market crops profitably. Despite CBH's efforts to provide enhanced service at the lowest price, long term trends in inputs, yield, supply chain costs, pricing and new competitor origins are having an increasing impact on farm profitability (and sustainability) throughout Western Australia.

There have been many reports on the 'Asian Century' bringing new prosperity to the region and creating unparalleled demand for Australia's raw materials and food. While this is an exciting and reassuring sentiment, it is by no means certain that Western Australian grain growers will benefit from this. Indeed, such an increase in demand and prices has to some degree just stimulated production from other locations which are often assisted by lower input costs, higher yields and new investment in supply chains to the market.

The more far-sighted reports suggest that the grain industry needs to look to ways that the Australian grain production and export industry can become more integrated and efficient, so it may benefit over the long term from growth in Asia.

It is CBH's view that growers must play a key role in that search for productivity and efficiency along every step of the supply chain; from the delivery of wheat seed on-farm through to the sale of flour into Asia.

RESPONDING TO THE ISSUES PAPER

In each of the nine "Issues Snapshots" CBH has limited its response to those questions that are relevant to the CBH business (storage, logistics, marketing and processing).

This submission does not respond directly to those matters that might affect CBH's individual grower members in the context of their respective farming operations; as these will be responded to by individual grain growers and their representative groups.

1.0 ENSURING FOOD SECURITY IN AUSTRALIA AND GLOBALLY

1.1 Do farmers have access to timely, relevant and accurate information to fully inform production decisions to meet domestic and global food demands?

The grain industry often considers information in a broader context incorporating two key areas:

- Information that helps to inform production decisions, such as signals from the market including customer demand for specific grain type and quality; and
- Information that might assist growers to be suitably informed regarding price (and pricing) including information and data regarding grain held in store (unsold volumes, grain quality etc).

Information that assists in informing production decisions

The ideal value chain is often described as one where growers and their customers are inextricably linked and where growers' planting and cropping decisions are informed directly by the demands of their customers (locally and internationally).

The reality is often a little different; partly because most grain growers will make planting decisions on the basis of agronomic factors and resulting gross margins (what grain type can deliver the highest yield for their particular geography). While factors such as attendant logistics, such as storage services available and the requirements of customers remain important, a grain (or a specific variety of a grain) and its capacity to be agronomically productive will often be the primary consideration.

The ability of value chains to convey demand signals to grain growers will always be inhibited by the capacity of those chains to make a timely response. As an example, plant-breeding programs can often take decades to produce new varieties suitable for commercial propagation. Striking a balance between markets (grain processors) communicating a desire for growers to produce particular grain varieties, qualities and volumes and a growers' capacity to make an agronomic and financial return on those signals is the very essence of world grain markets.

CBH's investment into its Asian flour mills is a prime example of an organisation seeking to bring growers and their processing customers closer together. As a result of CBH holding a 50 per cent stake in six flour mills in Indonesia, Vietnam and Malaysia, growers can receive direct and transparent information around consumptive trends and quality requirements from these markets (such as increased demand for high protein milling wheat) and as a consequence make more informed planting/cropping decisions.

These specific examples aside, it is contingent for organisations, such as CBH, operating in global grain markets to undertake and facilitate an effective link between growers and their customers (rather than expecting a statutory or regulatory entity to undertake this function). Information such as seasonal wheat quality data, testing and functionality traits that CBH (along with other marketing and trading organisations) convey to their local and international customers forms a critical component of the competitive grain marketing landscape. By extension, 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.

Despite this predisposition for the natural forces of world grain markets, CBH considers that there are opportunities for Government to play a role in ensuring integrity and function of the Australian grain industry such as supporting the role that Wheat Quality Australia ("WQA") plays in the area of wheat variety classification, in particular the function of promoting the class structure for Australian wheat.¹

CBH considers that beyond this point, the responsibility of wheat variety classification and the broader function of creating a link between grain growers and their customers, must reside with the key marketers of Australian grain.

¹ A key challenge for WQA is to finalise a longer-term funding strategy to which CBH understands GRDC and GTA are working to resolve.

Access to accurate information to assist pricing decisions

There is little doubt that growers are accessing increasing levels of information to assist with their marketing decisions. In a recent survey of CBH grower members, 80 per cent of respondents listed online price discovery mechanisms as their first choice for grain pricing information. With this type of trend, CBH believes there is sufficient evidence that the market is moving to fulfil its information needs and that there is no overarching requirement to legislate for information provision.

Since the deregulation of Australian grain industry (wheat at a national level and coarse grains at the state level) there has been discussion about whether this flow of information is being appropriately coordinated. One example is the extent to which the level of publicly-accessible stocks information should be increased (volumes and quality details for growers' unsold grain held in store) and whether the release of this information would assist growers to make pricing and marketing decisions.

CBH notes the recent work undertaken by the Wheat Industry Task Force and is supportive of the conclusions outlined in the 2013 discussion paper that:²

- *... based on the reports considered by this paper, there does not seem to be obvious market failure resulting from the information that is currently available, even if this information must be paid for.*
- *... members believe that, as the Australian wheat export market progressively moves towards full deregulation, there is an increasing range of tools and information available for growers, and other industry participants, to manage risk, market their grain, and get the best price.*
- *The taskforce acknowledges that some industry participants are calling for stocks information held in BHC systems to be disclosed on a detailed level. However the taskforce believes such a requirement would potentially provide an incomplete picture of the actual stocks situation by not capturing those stocks held by other commercial operators and on-farm.*
- *The taskforce found that there was no evidence that growers would obtain a material benefit from an increased level of market information, including stocks. Through the CIE report, the taskforce found that a deficiency of stocks information was not placing Australian growers at a significant market disadvantage, with price instead being driven predominately by global market forces.*
- *Evidence from Viterra grower questionnaires suggest growers have little interest in providing their stocks information for public release. This suggests that growers surveyed do not see increased availability of disaggregated stocks information as critical to their business decisions. This is supported by the GHD Ltd observation around price being the most critical factor affecting marketing decisions. This price information is readily available on a daily basis.*
- *The taskforce noted that, since the conclusion of targeted government and industry funded stocks information publication, the industry has been through the 2012 harvest and most of the marketing period for that crop. The taskforce is unaware of any major disruptions to the effective operation of the wheat export market during this period.*

As a co-operative owned and controlled by the growers of Western Australia, CBH has raised reservations during industry consultations regarding proposals to force disclosure of additional stocks information beyond current provisions.

CBH does not believe that growers would truly benefit by allowing details of unsold stock information held in bulk handling systems to be disclosed to the market.

Grain growers have a naturally "long" position in the market; that is growers produce a crop and are then obliged to market that grain over the course of the year. In export dependent states such as Western Australia (and to a lesser degree South Australia), the notion that the release of information pertaining to grain held in store (specifically information relating to tonnage, grade and grain quality) would somehow give growers "market power" is not supported by any evidence and consequently makes very little sense.

² Wheat Industry Advisory Taskforce 2013; A preliminary assessment of wheat export industry stocks information requirements - Page 17

Ultimately the price of grain destined for the export market is affected by the volume of grain in the global market that is available for trading, of which Australian grain is a small factor. It is information about grain production in foreign jurisdictions that drive the fundamentals of global grain pricing, and the Australian domestic price will respond to surges in global pricing that would make it more attractive to export than sell locally.

Rather, and in most cases, it is the buyers (marketers and traders) who seek this information because it will allow more informed decision making as to the global supply of grain. Traders can reduce acquisition prices in knowledge of abundant supply and simply compete at "market values" when volumes are at more normal levels.

In CBH's view, it is the buyers of that grain (or those commercial entities at the periphery of grain marketing such as traders, brokers, consultants and organisations publishing information) that will gain the most by having a more thorough understanding of the volume of grain held in store; not grain growers.

The storage and handling system operated by CBH was developed by and for the growers of Western Australia. While growers certainly welcome the opportunity for local and international grain buyers to access their grain via the CBH system, up until the point of sale, the grain and its attendant information remain the commercial property of growers'.

2.0 FARMER DECISIONS FOR IMPROVING FARM GATE RETURNS

2.1 What alternative actions or measures by governments, farmers or others would result in improved financial performance at the farm gate?

There is little doubt that long- term trends in inputs, yield, supply chain costs, prices and new competitor origins are having an increasing impact on farm profitability. One of the key current challenges, certainly for the growers of Western Australia is that they have access to supply chains that enable them to transport their grain to international markets effectively and efficiently.

To this end, and as outlined in sections 3.1 and 8.1, Government can assist in this process by ensuring an appropriate policy framework exists in Australia that strikes a balance between creating an incentive for investment by allowing adequate returns versus ensuring market participants have access to essential infrastructure (specifically that which cannot be duplicated) at a reasonable rate of return. In the absence of a true monopoly asset, the market is the most efficient way to determine an efficient allocation of assets and to provide competition that values an Australian grain grower's agricultural products.

In determining whether and how to regulate access, the relative incentives and constraints on participants needs to be carefully considered. Attention must be paid to the identity of benefiting stakeholders in determining whether regulation is needed to offset commercial imperatives that would otherwise harm grain growers. Governments should facilitate and encourage stakeholders who re-invest into the Australian supply chain and have an ongoing focus on driving productivity improvements to ensure the sustainability and profitability of Australian agriculture.

As outlined in section 7.1, CBH considers it incumbent on Government to generally aim to minimise supply chain regulation as it leads to increased costs, inertia, inefficiencies and market distortion, the adverse effect of which is ultimately borne by the grower.

Likewise, poor or ineffective regulation in the absence of effective constraints can also result in poor economic outcomes for Australia. This is particularly the case where the interests of the monopoly asset holder diverge from those of the users of services provided by the monopoly assets.

3.0 ENHANCING ACCESS TO FINANCE

3.1 How can foreign investment best contribute to the financing and productivity growth of Australian agriculture?

CBH is not opposed to foreign investment. 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 complementary to local industry.

As a case in point, the 49 year lease, which expires in 2049 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. While Brookfield's involvement has been welcomed by the Western Australian State Government, it seems Brookfield's commercial objectives are increasingly at odds with the users of the WAGFRN; the growers of Western Australia and the States \$3-4 billion grain industry.

Brookfield Rail and the growers of Western Australia have fundamentally different positions regarding the operation of the WAGFRN. 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.

It has become increasingly obvious that these two objectives are mutually exclusive; for example:

- Brookfield Rail is seeking to close those sections of the WAGFRN on which it is not making very high levels of profit, without surrendering them to an alternate user, on the basis that it can continue to increase revenue and margins from a reduced section of the 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. This closure is sought despite those assets remaining an important component of the local supply chain, the use of which would avoid increased costs being passed onto the community; and
- 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.

Into the future, it is incumbent on Government to develop policy frameworks that strike a balance between creating an incentive for investment (including foreign 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. This doesn't mean a lack of returns, but it doesn't mean monopoly profits either.

When considering foreign investment the Government requires a clear understanding of an interested company's commitment to the Australian grain industry and their plans to enhance the operations of Australian growers and their rural communities.

4.0 INCREASING THE COMPETITIVENESS OF THE AGRICULTURAL SECTOR AND ITS VALUE CHAINS

4.1 How might existing laws and regulations be changed to address any market power imbalances in the agricultural supply chain, without limiting prospects for global-scale firms developing in Australia?

CBH does not, as a general rule, support increased supply chain regulation as it leads to increased costs, inefficiencies, inertia and market distortion; the adverse impact of which is ultimately borne by the grower.

CBH considers that it is incumbent on Government to develop policy frameworks that strike a balance between creating an incentive for foreign investment, and where that investment involves key export infrastructure (railways lines and roads), that the users of that infrastructure have some assurance that they may continue to access facilities with reasonable service and reasonable pricing (see Section 7.1)

Global scale firms can develop if investment into the Australian marketplace by local incumbents is not regarded by regulators as prejudicial to competition. Typically Australian firms compete against organisations that are many times their size who are able to leverage significant economies of scale and scope into Australia.

A situation that sees Australian firms provide fair and open access to their local supply chains whilst not receiving similar opportunity in foreign jurisdictions will guarantee that Australian firms, particularly those without the necessary economic and operational scale, will be gradually subsumed into larger multinational corporations.

5.0 ENHANCING AGRICULTURE'S CONTRIBUTION TO REGIONAL COMMUNITIES

5.1 What impact does the growth of population in regional centres and the decline in more rural or remote townships have on farming businesses and the agriculture sector?

The CBH Group has demonstrated a strong and sustained commitment to rural Western Australia and the broader grain industry by supporting a range of community projects and initiatives that contribute to regional capacity building.

Given the diminishing number of large organisations operating (and residing) in rural Western Australia and coupled with the company's unique co-operative structure, CBH's annual Community Investment expenditure of \$1.5 million is an important part of the co-operative's ongoing commitment to rural Western Australia.

However, diminishing rural populations remain a major factor to be addressed by the Western Australian grain industry, particularly to ensure it can source supplies of labour that is sufficiently skilled both now and into the future.

To address this, CBH would ask the Government to consider:

- Developing incentives for organisations to invest in rural areas and/or to locate infrastructure (including administrative resources) into regional communities;
- Supporting the development of key infrastructure in regional centres;
- Consulting with key organisations currently operating or located in regional Australia to ensure the opportunity for enhanced collaboration in capacity building efforts; and
- Assisting with building an enhanced understanding amongst regional communities of the global environment in which they are operating.

6.0 IMPROVING THE COMPETITIVENESS OF INPUTS TO THE SUPPLY CHAIN

6.1 What skills including specialised skills and training, will be required in the future and how can these be delivered and uptake encouraged and;

How can we attract workers to agriculture – particularly in remote areas and promote career pathways for the agriculture sector, including models to enable younger farm workers to gain broader industry experience?

A survey of the literature for the Australian agricultural sector (undertaken by the AGI)³ suggests that the rural workforce is declining at a considerable rate. Allen Consulting (2012) suggest this could be as much as 30 per cent over the next ten years. It is considered that individuals working in the sector will increasingly require more intensive training and skills development and that fewer students based in rural areas are pursuing tertiary education, let alone studies in agricultural based disciplines.

Allen Consulting (2012) reported a national drop in the number of farmers and farm managers operating in Australia from 250,000 in 1997 to around 168,000 in 2011.⁴ The issue is exacerbated in that while the number of people employed in farm related labour is declining, the level of skills required by those working on farm is actually increasing. In other words, a declining workforce needs an increased level of skills and training. In fact the demand for employees on farm is increasing at a rate of around 0.9 per cent annually and the nature of the skills required is diversifying into a range of emerging disciplines such as soil science, supply chain management, environmental management and expertise in carbon capture.⁵

So not only does the grain industry need to consider how it can find new employees, it also needs to ensure that those workers currently employed in the sector are suitably trained. This is further complicated by the generally increasing trend in work place complexity and that it is estimated that for every agriculture graduate, there are ten job opportunities from which they can choose.⁶

Of the labour currently working on farm, 50 per cent do not possess tertiary qualifications.⁷ While this is not always necessarily negative, more important is the reality that this is around three times less than the broader Australian workforce; providing a considerably lower educational base from which the agricultural sector is required to build.

While not necessarily a lead indicator for future workforce capacity, 2008 was the culmination of five consecutive years of decline in tertiary enrolments in agriculture suggesting that things are getting worse not better. Also, the pipeline for students choosing to study agriculture is similarly diverted with statistics for the group that the grain industry might expect to be most predisposed to enter agriculture (or an agricultural based program) showing that just 36 per cent of qualifying Year 12's living in rural areas accept a place at tertiary institutions compared with 78 per cent in the metropolitan area.⁸

CBH supports the recent 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 Western Australia's ability to source suitable skilled labour to service current and future requirements across the value chain. And while there have been a range of studies examining the issue (the vast majority with a national and agricultural sector focus)

³ The Australian Grain Institute Council ("AGI Council") is one of the seven (7) Councils of the Grain Industry Association of Western Australia ('GIWA'). The AGI Council's vision is to nurture and support sustainable capacity building within the grain industry.

⁴ In this instance, agriculture refers to horticulture, grain, sheep and beef cattle farming; intensive livestock farming (dairy and poultry); other livestock farming (e.g. deer); broad acre farming; and services to the agriculture sector

⁵ Allen Consulting Group: Rebuilding the Agricultural Workforce, Jan, 2012.

⁶ Review of Post-Secondary Agricultural Education in Western Australia: Cowan, 2010

⁷ Review of Post-Secondary Agricultural Education in Western Australia: Cowan, 2010

⁸ Review of Post-Secondary Agricultural Education in Western Australia: Cowan, 2010

considering related areas such as how best to attract tertiary students into agriculture based disciplines, very little has been done in the way of tangible interventions for the local grain industry.

The efforts therefore of the AGI Council become a very important rallying point for the Western Australian grain industry to take action and address what will become an even more critical issue affecting all industry participants if left unattended.

The literature suggests unequivocally that:

- Rural workforce numbers are declining at a considerable rate;
- Those that are working in the industry will increasingly require more intensive training and skills development; and
- Traditional sources of labour and employment pathways for the industry are changing with fewer students based in rural areas pursuing tertiary education, let alone studies in agricultural based disciplines.

To this point, interventions proposed to enhance labour capacity issues cited throughout the literature have generally proven unproductive. Recommendations are often too expansive and become problematic to implement. There are constant references to the formation of national peak bodies, the establishment of advisory committees or the need for governing councils but tangible and effective action is rarely taken. Published plans often adopt language such as *promoting, supporting or encouraging* which while inclusive, rarely achieve immediate and measurable outcomes and the Western Australian grain industry desperately needs something more direct in its approach if it is to address diminishing workforce capacity in an effective manner.

The AGI Council is currently seeking support for the development of a new approach that:

- Makes the Western Australian grain industry the primary focus: There have been a number of studies into issues of workforce capacity across the Australian agricultural sector and while this research is certainly relevant and applicable, only the Western Australian grain industry will be truly focused and committed to solving the issue at hand;
- Create a resource or body that is solely responsible for addressing the issues: The Western Australian grain industry needs a single entity or resource that can truly represent the interests of its commercial stakeholders to coordinate a unified response to declining workforce capacity. A business plan outlining the structure and function of this organisation (membership based) should be developed as a priority, with support gained from key stakeholders both during and subsequent to the development of this strategy;
- Liaise with stakeholders at a national agricultural industry level but let the local industry drive the issue in order to ensure the local industry has the necessary clarity of purpose and intent that it needs to develop and deliver suitably direct and immediate solutions on the issue of decreasing workforce capacity.

It is proposed that should the approach be suitable for the Western Australian grain industry, the model may be extended to other agricultural sectors throughout Australia; and

- Ensure all key Western Australian grain industry commercial participants are part of the solution; garner support from all key commercial stakeholders operating in the Western Australian grain industry to establish a suitable resource to address pre-competitive issues such as workforce capacity. Once a business plan is endorsed and a resource is in place, the industry can then start addressing some of the specific issues (building on some of the work already undertaken) as a matter of urgency.

6.4 What irrigation, transport, storage and distribution infrastructure are required to support the food and fibre production systems of the future and how should this be funded?

See Section 8.1

7.0 REDUCING INEFFECTIVE REGULATIONS

7.1 How well do regulations affecting the industry meet their policy objectives?

CBH does not, as a general rule, support increased supply chain regulation as it leads invariably to increased costs, inefficiencies and market distortion that is ultimately borne by the grower. Increased regulation would only be appropriate where the market cannot effectively respond (as a result of a true monopoly) and a clear need is demonstrated.

An example of this is the current port access regulation regime where CBH, pursuant to the provisions of the Wheat Export Marketing Act 2008 ("WEMA"), is required to provide an access undertaking to the Australian Competition and Consumer Commission ("ACCC"), in relation to the export of wheat from its port terminals.

The expense of dealing with port access undertakings over the last five years have been substantial, and estimated to have cost the CBH and Western Australian growers between \$2.6 and \$3.5 million.⁹

Not only do the current port access arrangements cost CBH and the grain industry millions of dollars every year, they also restrict the flexibility with which port operators and grain marketing organisations can respond to changing market conditions, be it price or production. This lack of flexibility increases the likelihood of international customers seeking grain from alternative origins of supply.

An example of this is the length of time it takes to make changes to the capacity allocation method. Amendments can take over six months to implement and must commence as harvest finishes in order to be ready for the next harvest.

Since deregulation, CBH believes that the wheat export industry has matured to a level that allows for further removal of regulations. Major grain industry participants have been working towards a Wheat Port Access Code of Conduct for over two years in an effort to ensure the ongoing competitiveness of the industry.

Unfortunately the Code is yet to be implemented and has resulted in CBH having to seek an access undertaking in order for the agreements to be in place for September 2014, incurring further costs.

If the Wheat Port Access Code is approved, then there is the potential for duplicative and inconsistent regulation between any undertakings given and the Wheat Port Access Code, with all additional cost having an impact on growers at the farm gate.

CBH is keen to see the implementation of the code at a voluntary level and applied across industry to all port operators. Adding further regulation to the industry would be contrary to the current deregulation process and approach to the grain industry. It would also be contrary to the recommendations of the Productivity Commission.¹⁰

The need for level playing fields

Current regulation is creating considerable market power imbalances for Australian firms. As an example, CBH is required, pursuant to the provisions of the WEMA, to provide an access undertaking to the ACCC in relation to the export of wheat from its port terminals.

In contrast, global agribusiness Bunge recently completed construction of a grain export terminal at Bunbury (around 200km south of Perth) with a capacity to export 500,000 to 1 million tonnes per annum. Based in the United States, Bunge generates revenue of over \$60 billion, with over 35,000 employees operating in over 40 countries.

CBH understands that as a result of the particular operating arrangements at the terminal, Bunge is not obliged to provide an access undertaking to the ACCC. This creates an uneven playing field and distorts the regulatory position on the basis that:

- Bunge will be able to discriminate in how it acquires and exports wheat through its Terminal in a way that is favourable to Bunge compared to all other Australian and international wheat exporters operating export terminals;

⁹ CBH submission to Productivity Commission Inquiry into the National Access Regime April 2013

¹⁰ Productivity Commission Inquiry No. 51, 1 July 2010 into Wheat Export Marketing Arrangements

- CBH, an Australian co-operative, will not be able to match Bunge's ability to provide variable terms for particular wheat types or customers because CBH must offer the same export terms to all parties; and
- Bunge will not have to spend the time or cost in negotiating a new export undertaking with the ACCC, something that CBH now faces due to the uncertainty associated with the Wheat Port Access Code of Conduct.

Further, there can be disparities between Government incentives for new entrants and those for incumbent operators. CBH is increasingly asked to expend money beyond the boundary of its sites such as "run off" roads and intersection alterations in view of forecast additional traffic, yet the same State Government is building a truck marshalling yard in Bunbury; a primary beneficiary of which will be Bunge's Bunbury Port.

7.2 What opportunities are there to reduce ineffective or inefficient regulation?

As outlined in section 7.1, CBH considers it incumbent on Government to look to minimise supply chain regulation wherever appropriate as it otherwise leads to increased costs, inertia, inefficiencies and market distortion; the adverse effects of which are ultimately borne by the grower.

Given the significant investment in wheat export terminals in Australia (something mirrored in Canada as well) it is clear that wheat export terminals are not a true monopoly as they can and have been subject to bypass.

It is also recognised that integrated supply chains offer the opportunity to capture efficiencies (seen in the world's leading iron ore supply chains operating in the north west of Western Australia). With this in mind, Government should examine whether there are unnecessary regulatory impediments to the operation of the most efficient and effective grain export supply chains operating in Australia.

7.4 How do we coordinate across governments to reduce regulations whose costs exceed their benefits?

In line with CBH's stance against increased regulation, and consistent with the recommendations of the Productivity Commission, CBH seeks a broader comment from Government on its longer term vision for regulation together with detail on its agenda for the continued deregulation of the grain industry, so that the industry has a greater degree of certainty for the future and may plan accordingly.

Likewise, when planning a supply chain operation, activities must be coordinated across three levels of government to avoid the potential for inconsistent application of regulations resulting from misaligned incentives (lack of consistent policies and determinants for heavy vehicle pathways are one example of potentially inconsistent application detrimentally affecting the supply chain).

8.0 ENHANCING AGRICULTURAL EXPORTS

8.1 How can industries and government respond to the key challenges and opportunities to increase or enhance exports?

Australian grain growers face the inherent challenge that while global demand for grain may be increasing, the nature of commodity markets means that this enhanced demand may not necessarily translate into higher prices. Take for example USDA data that suggests Asia will consume considerably larger quantities of wheat (Figure 1), but this increased consumption is unlikely to have any attendant short term impact on prices (Figure 2).

Asia will buy more wheat (20% annually)

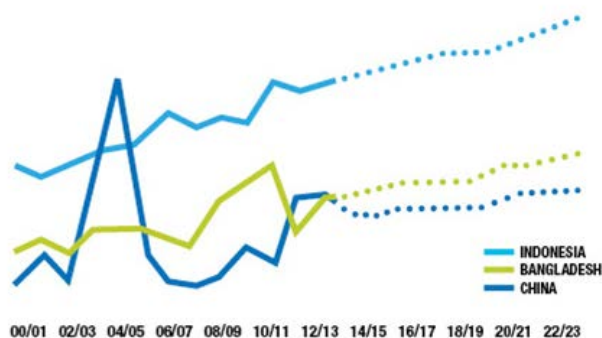


Figure 1 - Projected demand for wheat- 2023

No impact on prices in the short term

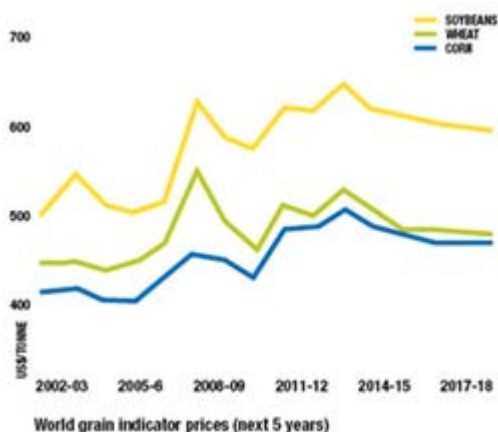


Figure 2 - Indicator of grain prices - five years to 2018

The inherently fungible nature of grain brings into starker contrast the importance of growers' minimising costs of production in a range of areas, including inputs (seed, fertilisers, pesticides), labour and supply chains costs, in order to ensure not just farm gate profitability, but in many instances, a farming enterprise's survival.

To this end, the fundamental premise of the CBH business is to ensure that Western Australian grain growers, who are entirely reliant on international markets to acquire their grain, have access to efficient inland supply chains (storage, handling, above rail operations and port infrastructure).

However, despite CBH investing more than \$600 million in up country infrastructure over the last ten years, and more recently an unprecedented \$175 million investment into rolling stock to enhance above rail operations to create a more efficient in-land supply chain that meets the shipping demand of international customers, Western Australian grain growers still face considerable challenges from other origins of supply.

Take for example the increase in production from what are considered non-traditional producers such as Russia and the Ukraine who are gathering an increasing share of global markets; just 12 per cent in 1960 to close to 36 per cent 50 years later (see figure 3).

¹¹ Source - USDA Production Grains Supply and Distribution Database 1960-2012

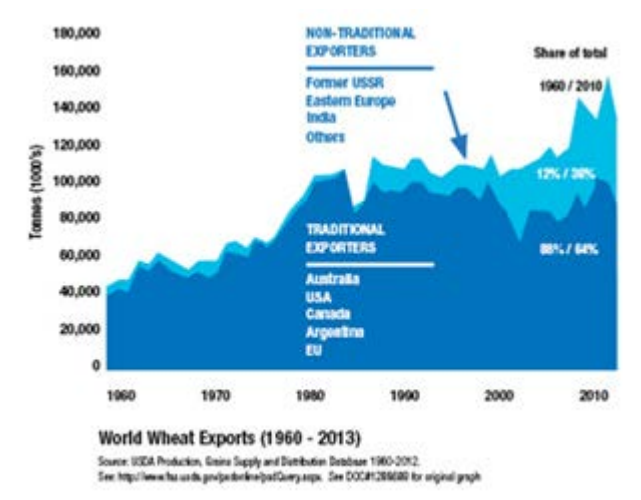


Figure 3 - Increase in non-traditional exporters

Exacerbating the importance of this issue is that these origins of supply are operating from supply chains that are often half the cost of those utilised by Australian grain growers. In the context of Western Australia, while growers have access to one of the world's most efficient storage and handling networks, they are still at a considerable input cost disadvantage (see figure 4).

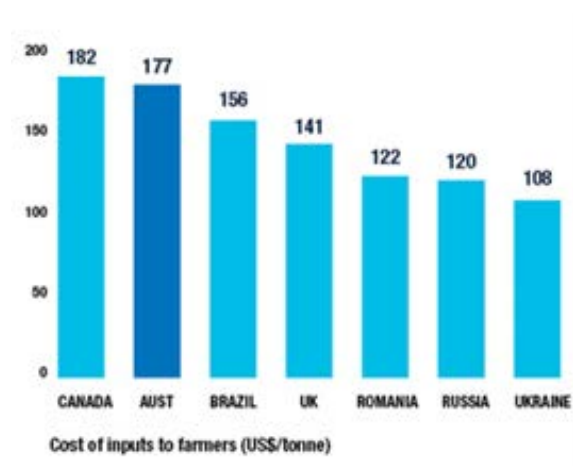


Figure 4 - Comparative farm input costs

What is needed?

While CBH will always seek to invest in supply chain infrastructure and undertake its business operations to provide Western Australian grain growers with access to an efficient and well managed value chain, the co-operative would welcome increased collaboration with Government to ensure that:

- An environment is created that incentivises ongoing investment into agricultural supply chains that increases the sustainability and profitability of primary producers;

- There is a wider understanding and appreciation that agriculture is vastly different to other industry sectors (such as mining) given issues of weather, geography and global markets and must be treated differently if it is to provide an ongoing contribution to the national economy;
- Policy is developed that strikes a balance between creating an incentive for foreign investment, but where that investment involves monopoly infrastructure (railway lines and roads) that the users of that infrastructure have some assurance that they may continue to access facilities with reasonable service and reasonable pricing: and
- Supply chain regulation is minimised as it leads to increased costs, inefficiencies and market distortion that is all ultimately borne by the grower.

8.2 How can the government take best advantage of multilateral and bilateral trade negotiations (including through the World Trade Organization and through free trade agreements (FTAs)) to advance the interests of the sector?

In line with CBH's position that it does not support increased regulation as it leads to increased costs, inefficiencies and market distortion that is ultimately borne by the grower, the global "hold" on tariffs should be made permanent along with efforts for further trade liberalisation such as:¹²

- Addressing the way international jurisdictions apply local taxes which, when applied differently to specific products, become a form of tariff. As an example, Indonesia's VAT is applied to soybean imports differently from lupin imports for the local tempeh/tofu market (soybeans attract a zero VAT tax, whereas lupin splits from Australia attract a 10 per cent VAT tax). This added VAT on lupins makes it difficult for importers to offer product at a comparable price to soybeans (despite superior quality traits);
- Ensuring that quarantine regulations are not used to shape supply in certain food crops. The export of Australian canola into China from the regions around Albany in Western Australia and parts of South Australia have been banned due to concerns around a fungal pathogen (*blackleg*) which may create issues for domestic canola crop production; and
- The removal of restrictions for Australian companies selling grain into Iran. Currently Australian exporters are required to sell grain into the Iranian market via third parties due to tight controls on Australian trading companies, making it difficult to compete with grain from the US. US grain traders are able to sell into Iran via owned subsidiaries in European localities. Last year the value of the Iranian grain market was in excess of A\$300 million.

8.3 How can engagement between industry and government on market access priorities for Australian agricultural products be improved, including informing negotiations on FTAs?

CBH is supportive of FTAs and considers the optimal benefit can be generated when FTA's are undertaken as a joint Government/business collaboration that takes a broad approach and avoids the 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.

¹² Note that in the interests of expediency CBH has limited its opportunities for necessary trade liberalisation to the following three. As an organisation that exports grain across the globe, CBH has a range of further examples that can be tabled for further discussion as required.

9.0 ASSESSING THE EFFECTIVENESS OF INCENTIVES FOR INVESTMENT AND JOB CREATION

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 Receiving 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 Receiving 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.

For further information contact:

BRIANNA PEAKE

Government and Industry Relations Manager

CBH Group

30 Delhi Street, West Perth WA 6005

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