

Grower Representation and its Impact on the Governance Structure of the Australian Grains Industry

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Abstract

The Australian wheat industry has changed considerably in structure and governance during the past 15 years. The most important changes have been the deregulation of the domestic market and privatisation of the former Australian Wheat Board into AWB Limited. Through these changes growers have become shareholders in the various companies. Governance of the monopsonistic relationship between AWB Limited and AWB International by the Federal Minister of Agriculture and the Grains Council of Australia through the Wheat Export Authority has proved ineffective. Hence a national organisation that represents shareholders is recommended to increase grower governance of the supply chain and marketing of wheat.

Key Words: Grain, Marketing, Infrastructure, Competition and Governance.

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Introduction

The Australian Grains Industry has changed during the past 15 years from a collaborative quasi government structure to a fragmented competitive capitalistic structure. The assets of the former State Grains Boards (SGB's) and the Australian Wheat Board were distributed to growers through various commercialization programs with the aim of providing growers with control over their industry. However the oversight structure of the new grain handling organizations, like many other corporate entities, does not provide growers with "control" of their industry unless they have control over the boards that make decisions on the behalf of shareholders.

An obvious question that needs to be addressed is whether growers need control of their industry organisations and for what purpose. The argument presented in this paper is that growers require control to regulate the activities of the rail operators and bulk handlers particularly AWB Limited due to the fact that it acts as a monopsonist in the provision of services to the export grains industry. AWB International holds monopsony rights as a function of the Wheat Marketing Act of 1989. By the term monopsonist, I refer to the power of an organisation to charge costs at a high rate than the level at which marginal cost equals average variable costs. This paper does not examine the issue of an exporter's power to act as an oligopolist in foreign markets - see Chang and Martel (2003) and Lobb and Fraser (2003).

The major flaw in the structural development of the new grains industry was that AWB Limited was allowed to compete in the domestic market with the former State Grains Boards and other agribusiness companies. These events should not have been permitted until AWB International had rescinded control of the single desk due to potential conflicts of interest (Watson, 1999). Under the current circumstances grower control is necessary to ensure that the cost of AWB Limited service provision to AWB International is based on a competitive price rather than a monopsonistic price.

Growers also require control to ensure that their other grain handling assets are not disadvantaged by the operations of AWB Limited in the domestic market. Purcell and Beard (1998) show how domestic market traders can be disadvantaged by the operations of a single exported that also operates in the domestic market. In some states growers own shares in competing grain handling organizations. Many growers in NSW, Victoria and Queensland, for instance, would own shares in both GrainCorp and AWB Limited.

The political groups that once represented growers in grain industry disputes have been suffering from declining support due to a lack of relevance at the state level and the rising level of industry segmentation. The State Farm Organisations (SFO's) including Agforce, NSW Farmers, Victorian Farmers Federation, South Australian Farmers Federation and Western Australian Farmers Federation have had disputes among themselves regarding the policy direction of their peak body the Grains Council of Australia (GCA). In particular a number of states had threatened to withdraw their membership to the GCA due to the cost of membership.

The GCA appears to have formed an alliance with AWB Limited in an effort to differentiate what GCA does from other grower organisations. The GCA has openly opposed other grower organisations such as Grain Growers Association (QLD, NSW & VIC), United Grower Holdings (SA) and Pastors and Graziers Association (WA) in matters such as the review of

the Wheat Export Authority. The division between the State Farm Organisations has added to the level of instability in the current industry structure.

The ability of the State Farm Organisations to lobby and make an impact on industry regulation through the various Governments has been waning. The value of lobbying a State or Federal Government Member on a grains related issue has declined due to the fact that governments no longer own or manage the industry or the supply chain assets.

Growers require a representative organisation that is national and has the power to influence the management of the grain handling organisations, rail companies and port handling companies. The organisation will need to take account of growers' joint ownership of AWB Limited as well as their interests in other grain handlers.

In this paper, issues of industry structure are debated with particular emphasis on an alternative structure that allows for increased grower control of the various new grain handling and rail entities.

Background

Prior to 1989 wheat growers in Australia supplied grain to marketing boards that operated in each of the major grain producing states and those State Boards then accumulated and supplied grain to the Australian Wheat Board for export. The supply of grain to marketing boards was mandatory and is still regulated for a majority of grains in Western Australia and barley in Victoria and South Australia. The relationship between the state grain accumulators and the national wheat exporter was collaborative. Collaborative arrangements also existed between the grain accumulators and rail operators. Rail transport was primarily State Government owned and operated. Shipping ports were operated by various State Authorities. The costs to growers for the delivery of grain was averaged by state and the costs were deducted from the total revenue that growers received at port (FOB). Essentially the Federal and State Governments owned the assets and bureaucrats oversaw the management of the assets. See Brennan (1995) for a review of the farm to port issues.

The industry prior to 1989 projected a positive and functioning image to growers. Growers saw harmony between the service providers as each had a specified role to play in the accumulation and delivery of grain to export markets. Supply chain competition was regulated. Management of the bulk handlers was focused on the task of moving grain at a minimal cost rather than competition between the sectors. Ministers were responsible for the efficient running of the quasi government organisations in their portfolios; hence, they were the first point of call for lobbyists as the ministers had power to affect the system. At that time the various state and Federal Ministers were influential in providing benefits to growers.

The Path to Deregulation.

The 1986 Royal Commission into Grain Handling led to deregulation of the domestic grains industry in 1989. Wait and Ahmadi-Esfahani (1996) place more context around the deregulation event. Essentially the domestic grains industry was described by the Commission as being inefficient and the system retarded growth of the milling and baking industries as well as the chicken, beef and pork industries.

After deregulation in 1989 the most interesting changes were those to the former State Grains Boards. The Boards first changed to a cooperative structure with the various State Governments transferring ownership to growers. The next step was to move from a cooperative to a private structure, as this would allow growers to trade shares outside of the cooperative. Finally the privatized company would be listed on the Australian Stock Exchange (ASX). AWB Limited followed the same development path that had occurred with the State Grains Boards when it progressed from being government owned to publicly listed company.

The major exception to the privatisation rule was Cooperative Bulk Handlers (CBH) in Western Australia. Growers in that state had the opportunity to privatise CBH in 2000; however, they voted to retain their cooperative structure. CBH had also proposed a deal with AWB International to manage the accumulation and transportation of grain in Western Australia. To date this deal has not been pursued by AWB. Table 1 shows a selection of the major changes that occurred in the bulk handling industry in the period after deregulation.

The grains industry is characterised as an “economies of scale” business. The need for increasing economies of scale has led to a number of amalgamations between industry participants. The former State Grains Boards on the east coast, namely Grainco (QLD), GrainCorp (NSW) and Vicgrain (Vic), have all been incorporated into one company – GrainCorp. GrainCorp competes with Netco, which is a cooperative company operating in all grain producing states. AWB Limited has been aggressive in competing with GrainCorp by establishing super-sites in the prime grain accumulation areas of NSW and Victoria and has recently expanded into Queensland to compete with GrainCorp’s takeover of Grainco in 2003.

AWB Limited justifies its expansion into the domestic grain accumulation market by claiming that the east coast is a combination of virtual state based monopolies. GrainCorp would claim that the size of the domestic market does not facilitate a large number of cost effective grain handlers. To some extent the domestic industry primarily serves the milling and baking industry. Those in the domestic feed business have been contracting with growers directly for the supply of grain. Some cattle feeders have contracts that include a payment to the growers for on farm storage and transport. These developments have led to a reduction in the opportunities for new entrants to the domestic grain handling business.

AWB Limited has also been proactive by acquiring business such as Landmark Limited. AWB Limited was involved in a hostile takeover of Elders in June of 2003. Elders is a direct competitor to Landmark. AWB Limited had also completed due diligence on Grainco prior to its merger with GrainCorp. These actions suggest that AWB Limited has surplus funds to invest and that it views investment in the Australian domestic market as being more beneficial than developing business alliances or infrastructure in overseas grain markets. O’Donnell, Griffith, Nightingale and Piggott 2003 still find evidence that grain buyers of domestic wheat and barley exhibit oligopsonistic behaviour. This may explain AWB’s desire to expand into the domestic market.

Wilson (1995) has suggested that vertical control, “either through contracting or integration is essential for exploiting the demand for (grain quality) heterogeneity” (p23). However, as the number of international grain importing agencies diminishes the ability of a single seller to meet more specialised demand at a competitive price may become more difficult.

Table 1. Selected Changes in the Bulk Handling Industry 1989-2003.

Company	Event	Year
ABB Grain Ltd	Listed as a public company. Developed from Barley Marketing Acts in SA (1947) and Vic (1948). Source: ABB Grain 2004.	1999
Australian Bulk Alliance	New company formed from merger between Grainco Australia Ltd and Aus-Bulk Ltd. Source: ABA 2004.	1999
Aus-Bulk Limited	Acquired Joe White Malting Acquired Adelaide Malting Company Unlisted public company owned by United Grower Holdings 50% from grain suppliers in the period 1990-1999/2000. Aus-Bulk (Est. 1954) Source: Aus-Bulk 2004.	2003 2002
AWB Limited	Bought Agribusiness Landmark Limited from Wesfarmers Moved into the domestic grain handling business Publicly listed on the Australian Stock Exchange {AWB Limited is owned by B class shareholders which include a proportion of growers who may also be A class shareholders. A class shareholders appoint growers to the board of AWB International which is subservient to the AWB Limited board.} Australian Wheat Board (Est. 1939) was privatized into AWB International which is a subsidiary of AWB Limited. Source: AWB Limited 2004.	2003 2002 2001 1999
Cooperative Bulk Handling (Est. 1933)	Merged with Grain Pool of Western Australia (Est. 1922). 2000 WA Growers voted to retain cooperative ownership rather than move to a corporate structure. Source: CBH 2004.	2002
GrainCorp Operations Ltd.	Acquired Grainco (QLD). Acquired Vicgrain Publicly listed on the Australian Stock Exchange. NSW Grains Corporation was renamed GrainCorp Operations and privatised. Prime Wheat Association (later Grain Growers Association) acquired NSW Grain Corporation from the NSW Government. Grain Handling Authority was corporatised and renamed NSW Grain Corporation. Grain Elevators Board (Est. 1917) renamed Grain Handling Authority. Source: GrainCorp 2004.	2003 2000 1998 1993 1992 1989
Netco	Umbrella organisation for seven grain handling cooperatives from each of the grain producing states. Have retained their cooperative structure.	2002
Vicgrain	Victorian Grain Services was renamed Vicgrain	

Railway Companies

The rail system in Australia is a mix of rail gauges with broad gauge in Victoria, narrow gauge in QLD, South Australia and Western Australia and standard gauge in NSW. Some states such as South Australia are networked with standard gauge lines or in the case of Victoria it has dual gauge on some routes. These are typically the city-to-city freight routes in the eastern states. There are very few lines that link grain producing regions to one another; thus the domestic industry is very reliant on road transport for that task. The lack of a standard rail gauge network in Australia limits the competition for the freight task as locomotives and wagons cannot be readily accessed from other states when freight requirements are high. This leads to the need for rail companies to over invest in wagons, which then adds to their freight costs. The most expensive freight tasks are those in NSW where trains are required to traverse the Great Dividing Range. In addition to this, the state of the infrastructure in NSW and Victoria is very poor and adds to the freight costs because of the slow train turnaround time. See Brennan (1995) and Eley (1998) for more on the costs of rail freight operations.

The Australian rail industry was also deregulated during the past ten years. The pace of investment and privatization has been similar to the grains industry. See Table 2 to see the change in rail ownership since 1996. John Anderson (1996) has said, “ I am frequently advised that competing government-owned rail operators do not have a sufficient profit motive and choose to distort the market through non-commercial behaviour.”

In NSW Pacific National, Silverton Rail and Freight Australia now bid on freight tenders from AWB International to the port zones of Geelong, Port Kembla and Newcastle. The track has remained the property of the Rail Infrastructure Corporation (NSW Government). A deal between the NSW Government and the Federal Government will most likely see the transfer of the NSW network with exceptions of the Hunter Valley and city network to Australian Rail Track Corporation. In the 2001 sale of FreightCorp the rolling stock and locomotives were sold to Pacific National. Pacific National now has obligations to provide rail transport on branch lines in NSW to 2006. After that time the existence of rail branch lines services in grain regions will be in doubt.

The rail system in Victoria is also under threat with Freight Australia closing non-profitable lines. Freight Australia purchased a lease on the track as well as the rolling stock in that state. Freight Australia has trains working on the standard gauge track in NSW and competes with Pacific National.

The Australian National network in South Australia was bought by Genesee and Wyoming in 1997. That group then joined with Wesfarmers to produce a company called Australian Rail Group. The Australian Rail Group (ARG) then purchased WestRail in 2000. ARG has invested in rail infrastructure on the narrow gauge network in Western Australia to carry 100 tonne wagons. The terrain is relatively flat and the haul is typically short (<320 km) which means the freight task is relatively inexpensive compared to the eastern states (Eley, 1998, p3). CBH also has superior loading and unloading infrastructure compared to other states that reduce rail costs.

Q-Rail also provides a competitive service in which it diverts trains from the coal industry during a part of the year for the relatively small wheat export task in that state.

Table 2. Bulk Rail Company Ownership Between 1996 and 2003.

Company	Activity	Year
Australian Rail Track Corporation formed	Created by Inter-governmental Agreement to act as a single point of access to the interstate standard gauge network.	1996
Australian National	Sold to Genesee and Wyoming Group in 1997. The new company was called Australian Southern Railway.	1997
WestRail	Sold to the Australian Rail Group (ARG), which is a 50/50 joint venture between Australian Southern Railway (Genesee & Wyoming Group) and Wesfarmers. ARG was also in the Alice Springs to Darwin Railway consortium called Asia Pacific Transport, which commenced operations last month.	2000
FreightCorp (NSW)	Sold to Pacific National Limited.	2000
V-Line Freight Corp.	Sold to Freight Australia.	2002
Q-Rail	Remained the property of the Queensland Government. Q-Rail created a subsidiary company to compete on standard gauge lines in Northern NSW.	2003

AWB International negotiates freight charges with rail companies in each state. AWB International then sets a freight rate for each silo, elevator or super-site including those of AWB Limited and its competitor GrainCorp. GrainCorp claims that AWB's rate setting policy stifles investment in grain loading and unloading infrastructure. AWB international alternatively argues that the size of the freight task provides them with volume discounts that other bulk handlers could not match. GrainCorp bought a train in 2002 to move grain for the domestic market and this has provided it with an estimate of competitive rate structures on various routes. In the future it can be expected that more contractors will operate their own trains and perhaps contract to AWB International on a hook and pull basis.

The increased use of trucks has put additional pressure on the future of branch lines as the reduced line volume leads to higher costs per tonne which then benefits the increased use of trucks. AWB Limited's entry into the domestic market has added to regional road costs as the larger trucks are being more frequently used to haul grain longer distances from farm to the grain accumulation centers. A regional development planning process for the super sites would have made the development process more tolerable to local communities. The local communities could have then also benefited by imposing a regional road tax. With the new system rural communities are likely to lose their roads as well as the rail lines.

Ports

Ports in Australia have also been privatized in the past ten years. The management of ports is regulated in a number of states to ensure access. An essential feature of a cost competitive modern bulk handling port is the ability to handle large vessels. This requires deepwater access and storage or rapid train unloading facilities. Many port in Australia have the ability to load quickly; however few have deepwater access. Rail access to city ports such as Melbourne, Sydney and Brisbane is being hampered by the container trade and congestion on the urban networks. Melbourne and Brisbane may follow Sydney's example and restrict these city ports to container traffic only.

GrainCorp entered into a partnership with Grainco in 1999 to establish a company called Bulk Terminals Australia. Bulk Terminals Australia owns and operates the ports in Brisbane (Fisherman's Island) and Newcastle. Port Kembla in NSW is 100 per cent owned by GrainCorp. The Fisherman's Island port is state of the art; however it suffers from poor rail access. Trains can be held up for hours while they negotiate the Brisbane metro network. Over time a new rail connection to a deepwater port such as Gladstone will need to be developed for QLD grain exports.

GrainCorp Operations also owns the grain handling ports at Geelong and Portland in Victoria. These two ports have 730,000 and 187,200 tonnes of storage capacity and typically load vessels up to 60,000 tonnes.

The ownership of these ports by GrainCorp provides an area of concern to AWB International due to a lack of port options. A new port facility of 45,000 tonnes has been built at the Appleton Dock in the Port of Melbourne by AWB Limited and Australian Bulk Alliance. Australian Bulk Alliance is a partnership between Aus-Bulk and Grainco (Essential Services Commission, 2004). GrainCorp bought Grainco in 2003. Under the merger agreement the half share of Australian Bulk Alliance (ABA) held by Grainco has to be divested by GrainCorp to satisfy competition requirements.

The introduction of competition between AWB Limited and GrainCorp has meant that port infrastructure ownership on the east coast is now also a contentious issue. The Essential Services Commission of Victoria has established a "negotiate-arbitrate" access regime where "GrainCorp must provide access to its export grain handling and storage facility on 'fair and reasonable terms'" (Essential Services Commission, 2004). However AWB and Aus-Bulk do not fall under the Grain Handling and Storage Act for their new facility. One might expect AWB Limited to build more port facilities in an effort to avoid using GrainCorp facilities.

The South Australian Government sold seven ports to Flinders Ports in 2001 (Wilson, 2003). Aus-Bulk operates the port Ardrossan. The Essential Services Commission of South Australia is reviewing the regulations for charges at six of the seven ports (Wilson). There is a growing trend in South Australia to use Port Lincoln in preference to other ports as it can handle large ships. In some cases ships are bottom filled at a shallow water port and then filled at a deep-water port. Aus-Bulk is also in the process of developing a deep-sea port at Outer Harbour. That port will handle vessels up to 80,000 tonnes.

The port facilities in Western Australia are primarily managed by CBH and as yet AWB Limited has not established competing services in that market.

The above review of the ownership structure of grain accumulation companies, rail companies and port companies shows that the Federal Government did not fully comprehend the potential impact of AWB Limited's move into the domestic market. There is no doubt that competition was required in the bulk handling, rail and ports sectors. More competition may still be required. However, the fact that AWB International has control of the freight task from bulk handlers to port will more than likely pull business away from AWB Limited's competitors into its own newly established subsidiary companies. This is the reason why AWB Limited's opponents promote the concept of AWB International acting as a marketer of wheat that allows competing companies to bid on the various freight management tasks. AWB Limited would claim that this is just a ploy of its competitors to retain business.

Industry Governance

Wheat exports in Australia are regulated by the Wheat Marketing Act of 1989. See Watson (1999) for a concise review or Irving, Arney and Linder (2000). Potential exporters of bulk wheat shipments, other than AWB International, must apply to the Wheat Export Authority for a permit to export. However AWB International must also approve the application before it is granted. Export wheat shipments in containers need only be approved by the Wheat Export Authority. The Wheat Marketing Act makes provision for AWB International to set the grade standards for export pools. AWB International makes use of this clause to impose a requirement for "ticket by ticket" delivery to pools. This business rule effectively blocks competitors to AWB International from delivering grain to port. AWB International is therefore able to collect the blending gains from mixing grain of various grades and regions. The ticket-by-ticket business rule also enables AWB International to be the only organisation to negotiate freight rates with rail companies in each state for export wheat. The Joint Industry Submission Group (2000) argues that opening up the service of delivery to port to competitors would provide a benefit of approximately \$5.00 per tonne to growers. The Accenture Report (2002) argues that the savings would be in the range of \$5 -15 per tonne. The rule as it currently stands restricts investment by AWB Limited's competitors in grain handling and rail infrastructure for export related services.

The Wheat Export Authority (WEA) is required to provide two reports on the operation of the single desk by AWB International. The first is the report to the Federal Minister of Agriculture and the second is the Grower Report, which is provided to the Grains Council of Australia. The report to the Minister contains confidential information whereas the Grower Report does not. The WEA has made a number of recommendations during the past three years to improve the assessment process. It was argued during the 2003 Senate Enquiry into further funding for the WEA that the Authority was a toothless tiger as it could not request the necessary information that it required from AWB International to perform its task and secondly that it failed to implement its own recommendations. The Senate review of the WEA in 2003 has mandated that the WEA receive its operating funds from growers via a levy on export wheat sales. The 2003 Senate Enquiry also mandated a review of the operations of AWB International in terms of its performance in relation to exports and the benefits that AWB International provides to growers.

An on-going concern to the WEA is the formula that AWB International uses to pay AWB Limited for the provision of services to the pool (WEA, 2003). The formula includes a fixed fee plus a capped out-performance bonus. The out-performance bonus is based on an index of performance by similar organisation in the marketplace plus some market based assessment (hurdles) to which only the WEA has access. The main concern with the fees is that the fixed component is too high in a drought year. The second concern is that the market-based hurdles are not high enough to justify bonus payments.

Other organisations also have issues with AWB's structure. The grower representative organisation Grain Growers Association has issues with AWB Finance, which is also a subsidiary of AWB Limited. AWB International is responsible for paying growers in either three or four installments over the life of the pool, which is typically 18 months. AWB Finance raises revenue from a range of finance products including harvest loans provided to growers against the value of the estimated pool return. AWB International thus has the ability to increase interest revenue to AWB Finance by delaying payments to growers thus extending the term of the loan. It is difficult for AWB International to justify late payments within the existing business structure of AWB Limited without it being accused of profiteering. It has been suggested that profits made by AWB Finance should be returned to the pools to offset costs, as finance was and is a direct pool related function. New competition from the banking industry in Australia has reduced rates and loan costs; however, AWB Finance still retains a large share of the business.

AWB Limited's purchase of Landmark from Wesfarmers in August of 2003 also raised a number of issues for grower organisations. The main concern was why grain industry funds were being used for purposes unrelated to the grains industry. In particular many growers could not understand why AWB did not invest its "surplus funds" in rail infrastructure to reduce costs.

AWB Limited's entry into the grain accumulation market has led to many fractures in the supply chain. Information flow was one of the first casualties. Foreign and domestic marketing information has dried up causing planning difficulties for market forecasters and plant breeders. The development of new grain accumulation centers has raised concerns by local shires and councils over the damage to road infrastructure and the potential abandonment of short line rail services. These issues and those described above have been aired in the rural media causing growers to perceive their current industry as being one in chaos.

Many growers have become despondent due to the debate in the press and they hark back to the old days of Government control over the industry. AWB plays on that sentiment and makes claims that any changes to the grain marketing system will lead to the end of the single desk. This tactic has been successful in raising emotions; however some opponents to the current domestic structure, such as the PGA, now see the removal of the single desk from AWB Limited as the only strategy left to regain control of the single desk.

Some growers blame the apparent disharmony in the industry on their State Farm Organisations as they have formed alliances with state based bulk handlers or AWB International. It would be reasonable to also assume that AWB Limited would want to reduce the effectiveness of the GCA by instigating disputes among the State Farm Organisations to reduce the GCA's ability to develop a unified policy on the single desk.

Watson (1999) provides insight to the conflict between the GCA and its state affiliates. The conflict according to Watson “reflects conflicts of economic interest and ideology” where at that time the economic interest was the accumulated assets of the Wheat Industry Fund and their potential end use.

The transition of growers from mere participants in a government regulated marketing process to the status of owner and shareholder of private grain handling companies has also changed the grower’s incentives and loyalties. Where previously growers might have been nonchalant about the business of their local grain accumulator many now have a vested interest in choosing the services of one company over another. They now receive annual reports identifying the value of their newly acquired assets. Some growers in the eastern states are irate about two companies in which they now own shares competing with another.

When the Federal and State Governments were the owners of the grain handling and transport infrastructure assets State Farm Organisations were pivotal in extracting benefits on behalf of the grains industry as they were seen as the representatives of the most relevant stakeholders.

It must also be recognized that benefits are no longer extracted from taxpayers. The new source of benefits is the customer of the bulk handler. If the customer and the shareholder are the same entity then the costs and benefits are a simple circular transfer. Financial leakages in the system are to non-grower shareholders, taxpayers and management.

The concern that shareholders have toward the costs of management is ubiquitous. The non-grower shareholders would obviously seek to earn as much after tax income as possible. But a new leakage is Corporations tax, which is 30 per cent of gross profit.

Changes in the relationship structure since deregulation are shown in Table 3. Note from Table 3, that the number of sectors that have shifted from collaborative relationships to competitive relationships.

Table 3. Industry Relationships after Deregulation of the Wheat Industry.

Sector	Prior to Deregulation	Now
AWB International	Collaborative Exporter	Domestic Competitor
Bulk Handlers	Collaborative	Competitive
Departments of Agriculture	Collaborative	Competitive
Foreign Market Information	Collaborative	Competitive
Grains Council	Strong Influence	Oversight of Single desk
Grower Organisation	Local issues	National issues
Growers	Beneficiaries	Source of Benefits
Management	Bureaucratic fee scale	Profit Benefit Fees
Minister for Agriculture	Influence Over Industry	Oversight of Single desk
Plant Breeding	Collaborative	Competitive
Ports	Collaborative	Competitive
Rail Companies	Collaborative	Competitive
Shareholders	N/A	Financial Benefits
Taxpayers	Debtors (Loss)	Creditors (Benefit)
University	Collaborative	Competitive

The Role of the Federal Minister for Agriculture

Agriculture Minister, Warren Truss, imposed a levy on the export wheat industry to fund the WEA oversight activities in 2003. The WEA only has the power to obtain information relating to the operations of AWB International and assess benefits to growers from the single desk. That information is then tabled in Parliament and provided in a report to growers. The process then stops. There is no inbuilt action plan to carry out the recommendations of the WEA. The WEA must report to the GCA; however, the organisation appears to have formed an alliance with AWB Limited. For instance the GCA have not pursued a public issue from the recommendations published in the past three WEA grower reports. When growers organisations raise issues from the grower report they are made out to be self-interested agents of the domestic grain handlers. Thus the reports lay idle and do not lead to progressive action.

The Federal Agricultural Minister displays strong support for the single desk, AWB International and indirectly AWB Limited to the detriment of the other sectors of the domestic industry. An incentive that may be attributed to the Minister for this one sided approach could be a fear of ballot reprisal for tinkering with the single desk. The Minister may also have been reluctant to make changes to the structure of AWB International prior to the negotiation of the Free Trade Agreement with the United States. The management of AWB appear to have realized that the Minister is reluctant to introduce changes to the single desk and appear to have gained an upper hand in their domestic expansion program. If the Minister has succumbed to this form of political capture then a new mechanism needs to be put in place to regulate the industry.

A second theory for why the Minister may be reluctant to minimize the profit making from AWB Limited service activities could be that the Government has a vested interest in company tax revenue. As AWB Limited profits grow so does the tax revenue and indirectly the Minister is will be in favour with the Treasurer for bringing in revenue. Alternatively the Government also receives tax revenue from AWB Limited's competitors so this line of reasoning does not seem persuasive.

Grower Representation

The Grains Council of Australia was established in 1930. The current State Farm Organizations members of the council include AgForce (Qld), NSW Farmers Association (NSWFA), South Australian Farmers Federation (SAFF), Victorian Farmers Association (VFF) and Western Australian Farmers Federation (WAFF). The Tasmanian Farmers Federation is an associate member.

The GCA's sphere of influence has diminished with each sale of the former statutory marketing boards. The State Farm Organizations have become less relevant with the divestment of the state grain handler, the state railway, and the state port authority. The national divestment of the Wool Board, Australian Wheat Board, Australian Meat Board and many other boards has added to the demise. The fact that the WEA must report to the GCA is one of its last legitimate responsibilities. Given that the GCA is the grower reference body for the WEA it is not clear why the GCA would unquestionably support AWBs position on the single desk.

The position of the GCA was clearly highlighted via the 2003 Senate Enquiry into further funding for the WEA. In a press release the GCA chairman is quoted as saying, “the GCA sees the Government’s and, in particular, the Minister’s support for the single wheat export desk throughout this debate as extremely reassuring to the industry and it is very much appreciated.” (Grains Council of Australia, 2003). This statement was released even though a large number of the domestic wheat industry participants had openly criticized the performance of the WEA and AWB. It would seem reasonable that the minister would provide a balanced response given the number of domestic constituents and that the GCA would be concerned over the benefits of the single desk and the costs that growers have to pay via service fees to AWB Limited to attain those benefits.

The State Farm Organisations and the GCA are faced with declining revenue from declining membership. State affiliates pay a fee to the GCA for membership. As the number of members to state organisations decline so does their ability to support the GCA financially. The lack of funding has reduced research and political activity that has led to a negative service spiral. This may be one reason why the GCA is biased toward the AWB. One might form the opinion that the GCA is attempting to identify with the shareholders of AWB Limited in an effort to represent them and thereby restore its relevance to producers.

It is worth noting that the GCA has not forged an alliance with other grower organisations to increase its relevance within the grains industry. The GCA does not recognise grower organisations that have an interest in bulk handlers other than AWB. The grower organisations that own shares in the bulk handlers are relatively lucrative and have money to invest in industry research and policy development; hence an alliance would seem natural given the GCA’s financial constraints. United Grower Holdings owns Aus-Bulk and represents growers in South Australia and Grain Growers Association owns 21.8 per cent of GrainCorp and represents growers in QLD, NSW and Victoria. Growers in Western Australia have elected to remain in a cooperative. However the GCA also shuns the Pastoralist and Graziers Association in that state, which has a public policy against the single desk.

Grain Growers Association was not established as a lobby organisation. It was established in 1958 to provide collective grain grading services to its members. Similarly Aus-Bulk was established in 1954 to allow growers to ship bulk wheat rather than bag wheat and this organisation also provides services to its members. These two organizations have filled the policy development void in the industry. These organisations supported the Kronos Report and the Accenture Report into the grains industry; however these two reports were rejected by the GCA on the grounds that the reports were funded by self-interested participants. The last significant contribution to policy debate from the GCA was the Booz-Allen Consulting Group Report (1994).

It is thus clear that there has been a separation of grower representation into either the AWB camp or the camp of the other domestic bulk handlers. It seems likely that AWB management would not listen to Grain Growers Association or United Grower Holdings advice on policy issues. It also seems likely that the GCA would not represent the interests of Grain Growers Association or United Growers Holdings. Thus a new body needs to be established to account for these alliances when assessing the value of political decisions that have an impact on not only the bulk handlers but also all the other users of grain in the domestic industry.

The New Structure

Before a new structure is proposed it is worthwhile to consider the limitations of the current governance structure. Currently the WEA reviews only the operations of AWB International rather than the parent company AWB Limited. The WEA reports its findings to the Minister for Agriculture and the Grain Council of Australia. The Minister and the Grain Council appear reluctant to implement the recommendations produced by WEA. Hence a new body is required to assess and implement the recommendations of the WEA.

It seems implausible that only a selection of growers through the GCA will have an interest in the operations of AWB International. Growers in each state will also likely have an interest in their state based bulk handler, which may now be affected by the operations of AWB International managing the supply chain to port. It appears also that the GCA has aligned itself with AWB Limited and squarely against the remainder of the domestic industry.

The operations of AWB International now affect its competitors in the domestic industry, the private rail operators in each state, and the private port terminals. There is also the interest of the domestic milling and baking industry as well as the lot feeders and poultry industries, to consider. These groups have been very vocal in their opposition to the manner in which AWB International has conducted its operations. Having said this it can also be expected that competitors to AWB International would prefer to compete with AWB Limited on an equal footing (Joint Industry Submission Group, 2000).

Due to the fact that AWB International conducts confidential trade deals it is prudent for an independent organisation such as the WEA to undertake the analysis of the benefit to growers and the costs associated with service delivery. However once that process has been achieved a new pathway would be required to implement the WEA recommendations.

Passing the recommendations through the Minister adds a political component plus a rather slow legislative component that may not be in the interest of the industry. The industry review above has been testament to the speed of change. The political component is that the Minister appears to be politically sensitive to making changes that may in any form appear to affect the single desk. Since the single desk is too politically sensitive, an alternate management process must be developed.

For the sake of decisions that are in the best interests of all growers the committee that reviews the WEA reports should be a predetermined mixture of industry stakeholders. The stakeholders' committee should also include a member from one of the competing bulk handlers, a member from the domestic milling and baking industry, and a member from the lot feeders or poultry industries plus a member from a railway company. The number of grower representatives from AWB and GCA should be matched by a proportional number of representatives from Grain Growers Association, United Grower Holdings and PGA.

The committee should have the power to vote on each of the WEA recommendations and advise AWB International directly to act on the recommendations that should be implemented. The committee should functional only as long as the single desk is in operation.

In the long term growers will need to be represented as shareholders rather than as beneficiaries of government distributions. This will require grower organisations to reshape their priorities and alter their lobbying strategies to negotiate with business managers rather than politicians.

Progressive grower organisations will likely find that they are negotiating less with government members and more with the management of agribusiness companies, rail companies and port handling companies. To represent their members' interests effectively the organisation will need to focus on their members as shareholders. Shareholders will be the only growers with the power to influence directors and provide adequate governance for the industry. The organisation will also have to make allowance for the fact that the shareholder will have interests in several companies some of which may be in strong competition with one another. One might also expect that one of the organisations new roles will also be to liaise with regulation authorities to respond on the costs and efficacy of service delivery to members.

Conclusion

In this paper it has been shown that the grains industry has been through a dynamic phase of privatisation. Growers are slowly coming to terms with the fact that they now own the assets of their industry and that they are no longer dealing with government but with the boards of agribusiness companies, rail companies and port companies. The issue of AWB International's control over the supply chain needs to be rectified. The bulk handler to port segment needs to be open to more competition. This will of course require AWB international to specify their product more closely to avoid blending and grading problems. A new committee is also required to assess the WEA recommendations and to implement changes. Under the current system the process has been stifled by political sensitivity and the alignment of GCA with AWB Limited. The industry participants in the domestic market also require input into the functions of the single desk and more attention needs to be devoted to their interests. A new style shareholder organisation will be necessary to represent the interests of growers into the future. The shareholder organisation will have to take into account the fact that their shareholder members will have an interest in more than one grain handling company.

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