

Contributed Essay

The following essay was contributed by previous past president of the Association, farmer and farmer representative John Crosby. The essay is a very informative 'potted history' of the regulatory structures in the Australian wheat industry over the last 60 or so years.

The degree of centralised control exercised on the industry and the economic effect of 'socialising' costs and expenditure was remarkable. The regime where it was once illegal to sell wheat to anyone other than the AWB seems absurd in hindsight. Thankfully it was a regime that was short lived.

Conflict over Reform

But it is revealing to note that where once farmers actively rebelled against central control and lack of freedom in markets, they (or at least some are) now seeking to maintain a regime that locks out competition.

Domestic grain handlers / marketers generally support liberalisation of wheat export arrangements. These organisations believe it is in the interests of the industry and their shareholders, who are mostly farmers, to have a less restrictive regime. However, if the single desk goes west AWB will lose value if it doesn't diversify, which to the credit of the current management it is trying to do, although strangely, some of the shareholders are objecting to this. Many farmers have shares in both AWB and what used to be their state based grain-handling organisations, representing diametrically opposed positions on export regulation. Support for one side means the other side loses.

Maybe the way for farmers to maximise their own financial gain is to support diversification of the AWB (protecting / enhancing the value of AWB shares) and to support removal of the single desk (enhancing the value of the likes of Graincorp, etc). Is it time people started to think like shareholders and not farmers?

The Wheat Industry-How Did We Get Here?

John Crosby

The recent advertisements by candidates for Director of AWB Ltd, following the less than gentlemanly co-operation between various grain marketers and handlers really does raise the question – How did we get to this position?

The Wheat Board was formed in September 1939, under national security regulations. It is interesting to note that the AWF objected to the structure and membership of the Board, along with the level of the advance payment for pooled wheat. It was a result of some fairly predatory practices by a small number of large international grain companies and the perceived need to control staple food supply.

At that time, farmers had little access to information about the world grain trade and limited resources to enable them to hold grain back from the market, awaiting a higher price. This lack of financial resource was as a result of the 1931 depression.

The Wheat Board did not have universal support in its early years, but by the early 1950's the support of grower organisations and individual farmer leaders was unanimous. This universal support was crucial as the grains industry changed from bagged to bulk delivery of grain in the late 1950's. It allowed the financing of the old SACBH by the toll system and its equivalents interstate by way of deduction from grain proceeds.

The system worked very well for a number of years as the profit from the reduced cost of bulk handling, when compared with bags, provided a cushion to pay for the handling system. Labour costs were generally low during this period and so margins were good.

The increase in inflation and therefore in the cost of labour started to escalate both freight and handling charges in the late 1960's and really took off with the election of the Whitlam Government in 1972 and the infamous \$12 wage decision which was a core part of the inflation spiral which followed.

During this time wheat was wheat and all costs except freight were pooled and deducted from the one grade, which had one price.

The first sign of a crack in the solidarity in the grain marketing and handling system occurred between the states when the WACBH decided to build a new, state of the art terminal at Kwinana. Under the pooling of costs arrangement, this terminal was effectively paid for by all Australian grain producers.

The inequity of one state being able to make a decision for which all grain growers paid, started the movement for individual state accounting of storage and handling costs. It is arguable that this was the first step of the process of which we are now seeing the final large leaps.

During this early period some premium high protein wheat growers started to agitate for a separation of their "superior" wheat from the general FAQ pool. In true industry tradition this debate went on until 1974. The main opponents of change were the AWB (especially the then Chairman), and the AWF. Pressure was also building on freight costs, particularly in those states with large inland distances from the wheat belt to the seaboard.

In 1978 the combined cost of freight and handling for wheat in much of northern and western NSW hit \$44/Tonne. This was one third of the value of the wheat in that year. Whilst some political pressure was brought to bear, it was fairly ineffective, as the AWB deducted all of these charges from the first advance and the law at that stage did not allow farmers to deliver anywhere else. A farmer could use his own wheat, but even to sell it to a neighbour was illegal, unless it was passed via the AWB.

A black market began to develop between grain users in southern Queensland and growers in northern NSW. It took 3 years to move from a few hardy individuals who were very quiet about their activities, to a fairly open trade, believed to be in excess of 100,000Tonnes. What fuelled this illegal activity so rapidly?

This was the start of feed lotting in Queensland. As well there was a pig and poultry industry supplying Brisbane. They had to pay FOB prices for wheat, plus the cost of getting it to their up-country site. This was despite the fact that often the wheat was sourced by the AWB from sites that were local to the user. Meanwhile the farmer delivering to that silo was charged the freight component to port, plus local and port handling charges, as his grain was in the general pool.

The gap between what the customer was paying and what the farmer was getting was often in excess of \$50/Tonne. This occurred at a time when wheat was making about \$120-140.

What followed was the AWB threatening growers in northern NSW with legal action. Col Uebergang, supported by many growers took on the AWB, every state Government and the Commonwealth in a case in the High Court, under section 92, which allows free trade between states. The case was never decided. The AWB agreed to allow direct sale from farmers to end users within Australia, by permit. It took about 3 years before they finally gave up the price controls in the permit system and allowed free trade within Australia.

For the first time there was the ability for farmers to circumvent the monopoly of storage, handling and sale of their product, albeit with some difficulty. This placed a great deal of pressure on both the grain handlers and the railways. It is worthy of note that the combined handling and freight charge from the area north of Moree in NSW is still, some 25 years later, less than the \$44/T paid in 1978. SA, by comparison, has lost what used to be a cost advantage of greater than \$20/Tonne, to now where costs are fairly similar.

The breaking down of the compulsory funding of handling infrastructure and the lack of willingness of Governments in some states and the Commonwealth to fund what they deemed to be a grower service, led to the corporatisation of the grain handlers and the AWB. This has then been followed in most states by the transition to full company status and the issuing of shares.

We now have nearly completed the change in responsibility of management's goals. Under the semi-Government structures, the political pressure of growers and workers, under the protection of a monopoly meant that wages were higher than might have been had they been private companies, and conditions were better, with lower productivity. Farmers were able to demand services that were sometimes more than that economically justified. Management survived by meeting these expectations.

Now these two groups are competing for attention with shareholders who demand an acceptable return on their money. In a monopolistic business the easiest way to appease all three is to lift the charges and then return the difference as a dividend to shareholders. Whilst it is hard to raise the headline cost, various other costs and charges can be introduced and productivity gains not passed on. Ausbulk, Graincorp and AWB have been very effective in managing this process.

However, each organisation has its own shareholders to deal with. The AWB needs to develop handling capacity for two reasons. The first is that it cannot afford to be beholden to its competitors, the grain handling companies, who have marketing arms. This is particularly so if it loses its export monopoly in the future. Secondly it needs to weaken their competitive advantage by lowering overall handling charges. This reduces the ability of the marketing arms of the grain handlers, by reducing their access to profits, which in turn can be used to finance trading.

We farmers now need to understand that the competition between the various marketers and handlers will become more intense. We should not be surprised by their changed priorities. These companies will feed their shareholders and their development plans with any profits that they generate, rather than pass it to producers. We producers will benefit out of these changes by encouraging competition between the various players.

The monopolies, which allowed the development of a strong industry, are now being used by private companies to shore up returns to investors. Many of these investors are also farmers. However, over time the two groups will become more disparate. For example, Wesfarmers was a grower co-operative. It dispensed with the last part of that link last year. The same will happen to the grain companies.

This competition will be beneficial to farmers in the same way that opening the domestic market has created more and bigger users of wheat within Australia and applied pressure to handling and freight costs. There are no sacred cows anymore. There are a number of companies, many with a wide grain grower shareholder base, who vie for our business.

We should thank our grandfathers for the system they left us and thank our fathers for allowing it to change gradually. The big advantage that we have now compared with our grandfathers is our access to worldwide information and our access to financing options. The combination of these two factors, in association with very good handling and marketing options, allow us to better understand the value of our product

