

MEDIA RELEASE – FOR IMMEDIATE RELEASE

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GRAIN SUPPLY CHAIN INQUIRY – ARTICLE FOR WA COUNTRYMAN

There is nothing new about calls from some grower political bodies for an Australian Competition and Consumer inquiry into the grain supply chain. There has always been a sector of the grower community who feel hard done by and feel the trade gets a bigger slice of pie than it deserves. Similarly, there have always been grower groups who are keen to play up to this unhappiness. However, calls for an ACCC investigation miss a few important points.

Traditionally, ACCC investigations and inquiries are in response to anti-competitive conduct or clear evidence of “market failure”. A desire for a bigger slice of the pie is not evidence of market failure.

Growers have never had so many options to market their crops. They’ve never had such ready access to impartial information and advice. Whether they take advantage of those options is up to them.

In our view, the data and evidence show that rather than market failure, the grain industry has never been in better shape. There have been two exceptional seasons requiring the industry to work hard to move and export more grain than ever before.

Australia produced a record 66.5Mt in 2021-22, 12 per cent above the prior record (in 2016-17), 31 per cent above the 10 year average of 46.2Mt and after a 58.6Mt crop in 2020-21. Exports are expected to be a record 43.4Mt for 2021-22, 8 per cent above the previous record of 40.2Mt in 2020-21 and 34 per cent above the 10 year average of 28.6Mt. The grain industry’s value is forecast at \$25.4b for 2021-22, 33 per cent above the previous record value set in 2020-21. The value of exports for 2021-22 is forecast at \$22.9b, 65 per cent above the 2016-17 record.

Even with record crop production, grower cash prices are historically high, with independent analysis by Profarmer Australia showing grower prices are between the ninth and 10th decile. This does not look like market failure. It shows the industry has never been stronger than it is today.

Supply Chain Constraints

The impact of COVID and Ukraine war is well known. Improving supply chain capacity is in everyone’s interest. Improvements could include better access to labour and technology, improved port in-take through investment in road and rail and reducing container costs and increasing availability. Just as growers need to prepare for drought years, the supply chain and capital markets need to juggle capacity for big seasons and having underutilised assets in average seasons.

Regarding the other arguments for an ACCC inquiry:

Growers “lost” \$1.25b on 25Mt of grain exports

Claims growers lost \$1.25b on 25Mt of grain exported during the northern hemisphere new crop period (from July onwards) are overly simplistic. The cost of “carrying” grain is borne by the owner of the grain. There is nothing to compel any individual grower to carry or hold grain through an inverted market.

If a grower foresees a price decline, there are multiple buyers providing daily pricing for growers to sell their grain prior. We have seen a very large portion of growers do this in the last season.

We haven’t had a “health check” and “it is time”

To say there has not been an independent analysis of the grain industry supply chain since the deregulation of the Wheat Single Desk in 2008 overlooks the more than 30 inquiries, wheat port code and productivity reports held at both a state and federal level since deregulation.

The wheat supply chain is one of the most examined agricultural supply chains in the country. Investigations consistently find no evidence of market failure but instead competition and innovation, with sound commercial contracting, quality assurance processes, industry consultation and formal dispute resolution mechanisms.

The call for a health check has little regard for the significant new investment in infrastructure assets that have improved the competitive landscape in the grain supply chain.

Growers are not getting a fair price for their grain

A small number of growers have made complaints that Australian grain prices, including those bids to growers, did not rally with futures markets when Russia invaded Ukraine. Australia was not unique in not following futures prices during this period. History shows this was not the first time and suggests will not be the last time. Local cash prices also take into account local issues. That is why “basis” changes. The disconnect between cash values and futures markets related to the fact Australia’s export capacity and sales were heavily committed prior and during harvest.

The supply chain has been and continues to work at capacity to meet big export commitments. There was not the unsold capacity to make additional sales and bid pressure was not strong. The record Australian grain supply is greater than the capacity to move it through the export terminals.

Since the complaints about low basis levels, they have firmed to those prior to Russia’s invasion of Ukraine. Markets are dynamic and have responded to additional factors including inflation, resulting in a transfer of capital to interest bearing asset classes. World grain prices are high, leading to cost-of-living pressures across the globe. It begs the question: what is a fair price and to whom? The market determines the price.

There is significant competition among grain buyers with multiple active buyers, and naturally there is competition among growers selling grain. The value of the grain is based on the price agreed between a willing buyer and seller. Industry understands issues with supply chain capacity, which require significant investment.

As an industry, we actively engage with government and other stakeholders to improve efficiency and generate value and will always do so. An ACCC inquiry into pricing will not fix the supply chain challenge and would more likely delay or stifle investment to improve efficiency.

It would be a mistake to forget it is not only about competition in the global market. There is also significant activity in the local domestic market. This is Australia’s largest single consumptive market at about 16Mt. There are more than 270 GTA members - ranging from regional family businesses to large national and international trading/storage and handling companies - adding to demand. They are active 12 months of the year, with a full range of services offered.

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About GTA

GTA is a national trade association/peak body and is the focal point for the commercial grains industry within Australia. The role of GTA is to provide a framework across Industry to facilitate and promote the trade of grain. GTA Members are drawn from all sectors of the grain value chain from production to domestic end users and exporters. GTA has over 270 organisations as Members. Their businesses range from regional family businesses to large national and international trading/storage and handling companies who are involved in grain marketing activities, grain storage, human and stock feed milling. GTA Members are responsible for over 95% of all grain contracts, grain storage and freight movements made each year in Australia. GTA is a leader in international grain trade issues through its founding and active membership of the International Grain Trade Coalition (IGTC). A list of GTA Members can be found at www.graintrade.org.au