

FACTS

May 2008

Vol 47. Number 2

THE POLITICS OF WHEAT

For purely domestic political reasons, the government takes a strongly protectionist approach to the Australian wheat industry by limiting who can export wheat in bulk, the main form for transport of grain in the international grain trade.

Until AWB Ltd—formerly the Australian Wheat Board—was exposed for paying bribes to the Iraq regime of Saddam Hussein, it held an unchallenged position of power, as a publicly-listed company with a legislated monopoly, supported by both side of politics.

Minor reforms were introduced in 2007 by the former coalition government—a government hostage to domestic political considerations on wheat—but it is only with the Labor government's proposed abolition of the single desk that some level of competition will be introduced.



PRODUCING WHEAT

Wheat is one of Australia's staple agricultural commodities.

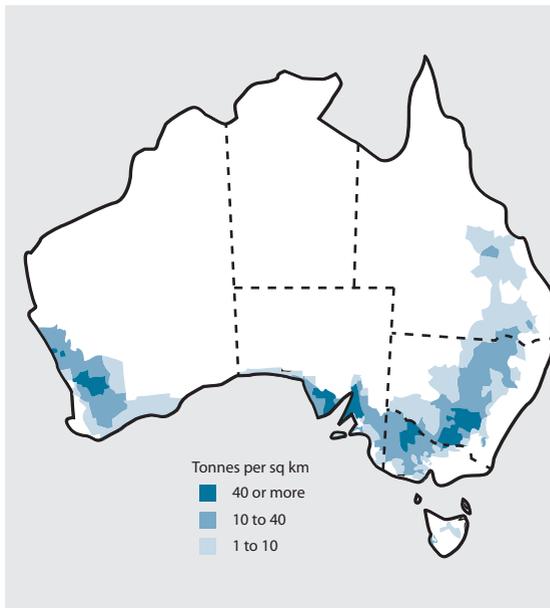
It was imported to Australia with the First Fleet, but the type was inappropriate for the climate and it grew poorly; and was susceptible to rust, an air-borne spore, due to the humid climate.

Australia did not become a major producer until Victoria, South Australia and Tasmania were colonised around the 1860s. The climate in these southern states was less humid and more amenable to the control of rust. At this time yields grew to meet domestic demand and provide enough surplus for export.

Wheat is grown in every state and territory except in the Northern Territory.

The industry provides more than **100,000** jobs in rural communities and along the domestic and international supply chains.

Australian wheat distribution, 2000-01



Wheat yields are heavily dependent on rainfall.

As distances in Australia are so vast, a low rainfall in one part of the country may not affect growing conditions in another part of the country. Hence, for example, any poor yield in the East may often be complimented by a normal yield in the West, thus making Australia a predictable and reliable wheat supplier.

Australia's wheat yield has increased strongly from an average of 1 tonne per hectare in the 1940 to an average of over 2 tonnes per hectare in 2006.

Worldwide, 75% of wheat is consumed directly, 15% indirectly as animal feed, and 10% for seed and industrial use.

CONSUMING and EXPORTING

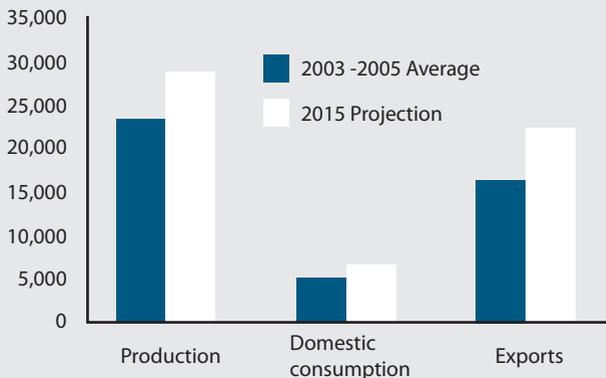
Of the total production of wheat nearly 70% is exported.

The key markets for Australian wheat are in the Middle East and Asia. Australia exports to these markets both because of their geographic proximity and also because of the types of wheat grown in Australia.

Australia's predominant wheat group is **Australian Standard White**, for producing **Arabic flat breads** and **noodles** for the Asian market. Australia also produces some **durum wheat** which is good for **pasta** and is exported to Europe.



Australian wheat production, consumption and exports (Kt)



Source: OECD-FAO Agricultural Outlook 2006-2015 pp122-124

Australia has a low and stagnant domestic consumption of wheat.

Total domestic consumption has not risen significantly since the 1940s.

Yet in the 1940s Australia exported 2 million tonnes of wheat, today it is approximately 10 million.

THE SINGLE DESK

The 'Single Desk' policy has given AWB Ltd. the right of veto over other exporters, to determine who exports wheat from Australia.



'Single Desk' policies were common in protectionist Australia until markets were opened up to the global economy

Most Australian State Trading enterprises have existed at a State level. The Australian Wheat Board is one of the few such enterprises that was created at a Commonwealth level. Some of the other State Trading Enterprises of the past include:

DAIRY: ABOLISHED

as sole exporter in 1974

EGGS: ABOLISHED

as sole exporter in 1984

WOOL: ABOLISHED

as buyer of last resort in 1991

MEAT: ABOLISHED

as board with discretion over aspects of meat export in 1998.

Many countries have already committed to phase out Single Desks and other State trading enterprises as part of World Trade Organisation negotiations.

The WTO's Doha Round require the abolition of many State trading enterprises around the world

Canada: Canadian Dairy Commission, Canadian Wheat Board and Ontario Bean Producers' Marketing Board.

Japan: Japan Tobacco, Japan Food Agency and Japan Agriculture and Livestock Industries..

New Zealand: Apple and Pear Marketing Board, Hop marketing Board, New Zealand Dairy Board and Kiwifruit Marketing Board.

Single Desks are on their way out.

THE SINGLE DESK DOES NOT BENEFIT FARMERS

AWB Ltd. claims it achieves strong premiums for wheat growers.

AWB Ltd. is required by its constitution to maximise sales prices for Australian wheat. Through its export monopoly and control of the National Pool that is supposed to minimise costs through supply chain management, AWB Ltd. claims to achieve sales at export price premium.

Yet, in comparable returns to those achieved by US wheat growers, AWB Ltd. is failing to secure the best price.

AWB prices vs. Average prices for comparable grade Pacific Northwest and Gulf wheat (US\$ per tonne)

Wheat	AWB Pool Return	Pacific Northwest and Gulf Prices
Australian Premium White	\$138.73	\$158.98
Australian Standard White	\$131.71	\$142.72— \$146.26

Source: 'Marketing Western Australian Wheat', ACIL Tasman, July 2005

Only AWB Ltd. claims that the single desk benefits Australian farmers. A series of independent analyses reveal the potential for net benefit to growers from the *removal* of the single desk:



Single desk reforms

1940s-2007

Current restrictions on export of bulk wheat bear little resemblance to the original monolithic single desk of the 1940's with its regulated domestic and export prices. Major reforms of the 1980's deregulated domestic wheat sales, removed guaranteed minimum prices to growers and dismantled the wheat stabilisation fund. The home consumption price for wheat was abolished and the compulsory pooling of all coarse grains and wheat eliminated. Through the 1990's until 2007 further reforms corporatized then privatised the Australian Wheat Board as AWB Ltd., privatised the old State Grain Elevator Boards allowing needed consolidation, deregulated all other grains

and oil seed marketing, and eliminated the Federal Government's underwriting of the national wheat crop.

In response to the Cole Commission's report, the Federal Government removed the export veto from AWB, deregulated bagged and containerised wheat exports and introduced limited licenses of bulk exports. The legislation as it now stands will transfer the veto over exports to the Wheat Export Authority on 1 July however the WEA will be required under legislation to act in the interests of the national pool manager, AWB. As a result wheat exports will continue to be heavily regulated and restricted.

The 2008 reforms

In completion of an election promise the federal government has released a draft bill to reform wheat marketing. The proposed bill abolishes the single desk and replaces it with a licensing system. These reforms build on the previous government's deregulation of wheat exported in bags or containers. All export wheat will now be open to some level of competition.

The new model is still far from open competition. To gain a license to export wheat a company has to pass various probity and financial tests. The licensing body is not required to report

on the specific criteria and the weights it assigns to them. One of the negative consequences of this is that growers will naturally rely on accreditation as a sign exporters are financially sound although the lack of transparency in licensing does not allow that conclusion to be drawn. Similarly, the licensing system will limit the entry of specialist, new exporters as a new company is unlikely to pass the accreditation test.

As a result a full range of potential buyers of grain will not be available for growers to choose from.



Reforming the single desk

Before the 2008 reforms

After the 2008 reforms

Australian Wheat Board (AWB Ltd.)

Role: Managed the National Pool and could trade wheat domestically.

- Obligated to purchase all wheat provided to it from Australian growers.
- Bound by its constitution to maximise prices for Australian growers.
- Sole-owner of AWB International

Role: Can apply to export wheat and can trade wheat domestically, on a par with private companies.

- Has announced it will run regional pools.

AWB International (AWBI)

Role: Sole-exporter of wheat—the 'single desk'

- Exported wheat internationally
- Wholly owned subsidiary of the AWB.
- Held veto on other companies exporting Australian wheat.

Role: No longer has a legislated role. Will be absorbed into AWB's operations

Private companies

Role: Could trade wheat domestically

- Bought wheat from producers and sold it on for domestic consumption in food products and stockfeed.
- Could export wheat with regulatory approval (rarely granted).

Role: Can trade wheat domestically, and can now export wheat in bags and containers without regulatory approval, but **not** bulk.

- Through the deregulation of wheat in bags and containers, will be able to export wheat, so long as it passes quality assurance tests.
- Allowed to export wheat if approval is granted by the regulator.

Wheat Export Authority (now Export Wheat Commission)

Role: Regulator

- Regulates and provides oversight of the industry and AWB Ltd.
- Had authority to approve private companies to export Australian wheat.
- Any approval could be vetoed by AWB International.

Role: Regulator

- Renamed the Export Wheat Commission.
- New authority to regulate the wheat export industry through licensing regime.
- Legislation grants wide powers to the WEA to interpret licensing requirements. Unclear whether there will be a prescriptive or light-touch regulatory regime.

GROWERS WANT TO BE ABLE TO EXPORT MORE

Wheat growers want to export bulk outside AWB Ltd.

Many wheat growers are also not convinced of the benefits of the single desk. Despite the strident rhetoric of an increasingly isolated old guard of farm leaders in support of the single desk, an increasing number of wheat growers now want a fully deregulated export market.

In the past, the volume of requests for export licenses has been extensive while few have been granted.

Wheat wants to be exported

Wheat	Niche markets	Non-niche markets
Million tonnes approved for export	3,104	43,500
Million tonnes not approved for export	223,700	584,500

Source: Wheat Export Authority, Wheat Export Statistics, 01/10/2006—31/12/2006



Government control of wheat marketing is an **outdated, ineffective** idea that **punishes innovation, rejects competition** and ultimately **harms farmers and consumers.**

It has no place in Australia's 21st Century wheat industry and **should be abolished.**