

Where to for wheat marketing?

By ProFarmer Australia

The recent Wheat Marketing Forum was timely and started us thinking how 'industry good' functions should be handled and, particularly, our information needs in a deregulated market.

Our presentation looked at how the environment will change; what industry good functions we will lose; and which of these needs to be picked up and by whom (we also looked at how the US industry handles this). We proposed a set of principles that should be applied to funding industry good functions and we provided some ideas on how information flow could be improved.

The new environment?

The wheat marketing environment will become much more dynamic – more volatility, widening in grade spreads and some cliff-face pricing when premium grades are oversupplied.

The national pool will become far less dominant and regional pools will be more dominant. Contract-based pools will be more popular and harvest pools will open and shut very quickly.

No longer will the national pool return place a floor or a cap on pricing or act as the industry benchmark. There will be increases in the number of grain buyers and marketing options.

The upshot of the new environment will be that growers have to become more involved in marketing. Good planning will be rewarded and access to timely market information will be critical.

Industry good functions

The following industry good functions previously handled by AWB will need to be picked up. AWB reckons it hasn't been doing some of these since the base pool fee was cut – some argue it has been a lot longer than that.

- Receival Standards – quality assurance function and regulatory function.
- Wheat Classification – deciding which varieties classify for which grades.
- Crop Shaping Activities – grade systems and incentives for matching production to customer requirements.
- Crop Report – collation of data on wheat grades to inform buyers.
- Technical Market Support – assist customers in understanding the quality of Australian wheat.

ProFarmer presented a paper at the Wheat Marketing Forum at the Vines Resort in WA in January.

The forum was organised by the Department of Agriculture and Food, WA and included 24 industry leaders drawn from all parts of the supply chain.

The focus of the forum was to investigate what the industry needs to do to prepare for changes to the export wheat marketing system. Discussion of our presentation forms the basis of this article.

A full copy of the presentation is available in the Members Only section of the ProFarmer website www.profarmer.com.au.

- Promotion – informing customers of key advantages of Australian wheat over its competitors.
- Trade Advocacy – representation on international regulatory issues.

What does the US industry do?

We looked at the US as a model of a large, deregulated, sophisticated and export-orientated industry. US Wheat Associates, which is 75 per cent government and 25 per cent grower funded, provides a very similar set of industry good functions. If anything, their promotions seems to be a little more trade and technically based.

A major difference between the US industry and Australian industry is the level of information provided by the USDA. This information, which is fully government-funded, is provided free to all interested parties.

The suite of information provided includes:

- Detailed monthly crop production reports and forecasts (both US and global);
- Weekly crop condition reports;
- Weekly exports and exports sales (mandatory reporting of sales in excess of 100,000 tonnes); and,
- Detailed quarterly grain stocks information (both US and global).

What principles should we apply?

In terms of the industry good functions, ProFarmer believes we need to let the new system breathe and wait to see what falls through the cracks. Let's have the confidence that the new system will tell us what it needs. Don't regulate or throw money at

services on suspicion. The world won't fall apart if some services are not supplied for a period of time.

Wherever possible, services should be supplied on a commercial basis and the industry should only look at funding functions where clear market failure exists – otherwise we run the risk of crowding out or displacing private investment.

Funding must be on a user-pays basis and tied as closely as possible to individual services provided.

Funding of these services should be regularly reviewed. There should be no big industry 'funding buckets' that encourage misguided spending.

Who should do what?

There will be plenty of debate about who does what. Commercial interests may pick up some of these if given the opportunity. Receival standards (Bulk handlers/NACMA), Varietal classification (must be independent, eg GRDC) and Trade Advocacy (NACMA/DAFF) are functions that need to be parked somewhere.

The remaining functions could be handled commercially. For example, crop shaping will occur via dynamic premiums and discounts and more direct transmission of price information from the market back to the grower. Similarly, promotion of Australian wheat can be handled by exporters who have a vested interest in ensuring their customers understand the value of Australian wheat.

These issues will be thrashed out by higher powers in the coming months – we only hope that they follow the principles we have proposed above.

An area where organisations like ProFarmer can have some real input and influence is in information requirements. To maximise the benefits of deregulation, we need to ensure equal access to information right across the supply chain.

Next issue we will look at access to information issues in more detail and put forward some of our suggestions.

