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Australia's Grain Industry Restructures 1999

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Report Highlights:

While considerable attention has been focused on privatization of the Australian Wheat Board (now AWB Ltd), restructuring has been occurring throughout the A\$7 billion Australian grain production, storage, handling, transport and marketing system. These developments have ramifications for the competitiveness of grain exports and could play a major role in the fight to retain the single desk export structure.

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Major Changes in the Australian Grain Handling, Storage and Marketing System

While considerable attention has been focused on privatization of the Australian Wheat Board (now AWB Ltd), restructuring has been occurring throughout the A\$7 billion Australian grain production, storage, handling, transport and marketing system.

The longstanding territorial boundaries separating grain handlers and marketers are breaking down and alliances are being struck in attempts to remain competitive in an increasingly deregulated domestic market. The industry has moved away from being largely state based and statutory, with a single player dominating each link in the chain, to a nationally privately owned, vertically integrated system. These developments have ramifications for the competitiveness of grain exports and could play a major role in the fight to retain the single desk export structure.

Whatever the outcome of that struggle, the grain industry of the future will be vastly different from the highly structured and controlled system of the past.

Background

The grain storage, handling, transport and marketing systems have undergone significant change in the last decade. The catalysts for change were the Royal Commission into grain storage and handling in the late 1980's, the deregulation of the domestic wheat market in 1989, and rail system reform in the 1990's.

The centralized grain storage and handling system in Australia developed over a period of about 50 years. In the early days a large number of sites were developed close to rail systems in grain growing areas. Many small receival sites were established to accommodate the difficulties faced by growers in transporting grain over long distances. The existence of Commonwealth and State marketing and Bulk Handling Acts traditionally guaranteed the exclusive operation of a single Bulk Handling Company (BHC) in each State. As monopolistic operators, many were not subject to the rigors of a competitive market for most of their history.

Present Environment

Currently the BHC's are either private companies or are grower owned co-operatives. While the BHC's provide a large infrastructure base, the capacity to maintain and update this base is a key issue for the industry, especially the replacement of ageing sites and equipment. The Grains Council of Australia (GCA) claims that the present system lacks the flexibility to cope with new demands stemming from the growing sophistication of grain end users and their demands.

Deregulation of the domestic wheat market has had the effect of increasing competitive pressures faced by the Bulk Handling Authorities (BHC's). This has been most pronounced in the eastern states where the domestic market is much larger. The BHC's have expanded beyond their traditional core business areas in an attempt to remain competitive.

BHC's have, and will continue to, enter other geographic storage and handling markets and will be involved in mergers or joint ventures with marketers, other BHC's or suppliers of other products or services.

The Players

Currently there are nine organizations involved in the grain system: The Australian Wheat Board (which became AWB Limited on July 1, 1999) which operates nationally, Grainco in Queensland, GrainCorp in NSW, The NSW Grains Board in NSW, VicGrain in Victoria, The Australian Barley Board (which operates in Victoria and South Australia and became ABB Grain on July 1, 1999), SA Cooperative Bulk Handling in South Australia, WA Bulk Handling and the WA Grain Pool in Western Australia.

Recent Changes in the Industry

Many of the above organizations have developed strategic alliances or have taken a shareholding in one or more of the other organizations. As these organizations become more commercial they must deal with the competing interests of operating profitably and returning a dividend to shareholders while keeping costs at a minimum for grain growers.

GrainCorp has been one of the most active organizations in restructuring to take advantage of the deregulated domestic storage, handling and marketing grains industry. GrainCorp has spent more than A\$140 million in recent years improving facilities in NSW. GrainCorp which started off as a grain handler has diversified into grain marketing and fertilizer sales and has taken a 25 percent stake in VicGrain and is reported to be examining further joint ventures with VicGrain and Pivot (a fertilizer company).

GrainCorp has also announced a joint venture with Cargill Inc. This agreement involves the development of new storage and handling facilities worth \$8 million at two strategic sites in southern NSW - Red Bend near Forbes and Henty. Cargill has announced that these sites will be operated by GrainCorp and receive grain on behalf of Cargill. This is significant as it is one of the first investments by a private grain trader in receival facilities. Most grain storage facilities in Australia are in the hands of the five main State-based handling companies which are shedding their statutory origins and moving into each other's territories, as well as vertically into marketing.

GrainCorp is also planning to build a A\$7 million grain storage and handling complex at Goondiwindi in southern Queensland.

Recently South Australian Co-operative Bulk Handling (SACBH) announced it would move into marketing from July 1, 1999 and may form an alliance with AWB Limited, rather than the Australian Barley Board (which operates in South Australia and Victoria).

In June 1999 Grainco announced that it had signed a deal with SACBH to construct and design two A\$5 million grain storage and handling facilities at The Rock and Coolamon in southern NSW. These facilities are expected to be operational this season.

Grainco expects that the first stage of its A\$40 million Port Melbourne import/export terminal, being constructed in conjunction with AWB, to be completed by December 1999.

The AWB recently announced that Western Australian Co-operative Bulk Handling (CBH Ltd) has been awarded the contract for the design and construction of AWB's A\$9.5 million grain handling and storage facility at Dimboola in the Wimmera district of Victoria.

Ramifications for the Single Desk

The Competition Principles Agreement (CPA) sets out the process for conducting reviews of legislation under the National Competition Policy (NCP). The guiding principles of NCP reviews is that legislation should not restrict competition unless it can be demonstrated that the benefits to the community outweigh the costs and that the objectives of the legislation can only be achieved by restricting competition. These review are due to be completed in 1999.

The Grains Council of Australia (GCA) believes that the retention of single desk marketing arrangements will be of substantial benefit to grain growers and the grains industry generally.

With AWB Limited's single desk due to be reviewed under NCP in 1999 the GCA has indicated that the Dimboola project could be affected by this review. As the project is a greenfields site, and since the AWB is a new competitor into the storage market it could be regarded as pro-competitive. However, if the AWB uses the power of the single desk unfairly to advantage the complex then it would be regarded as anti-competitive.

Both Vicgrain and CBH Ltd have indicated that they will do their best to end the AWB's monopoly on wheat exports if they perceive that the AWB is seriously attempting to add to the current grain handling network . These organizations believe that the current grain handling system is already overcapitalized. They are quoted as stating that they will move into AWB markets i.e. the domestic wheat market, if the AWB moves into theirs.

Remaining Single Desk Arrangements for grains (excluding rice)

AWB Ltd has monopoly rights on the export of wheat. ABB has monopoly rights on the export of barley from South Australia and Victoria. The Grain Pool of WA has vesting rights over both barley and canola in Western Australia. The New South Wales Grains Board has vesting rights over barley in that state. Grainco has the export monopoly on barley from Queensland.

Conclusion

Once the current round of rationalization is complete most of the current players will have restructured, formed alliances or merged. While efficiencies will be gained by replacing some outdated facilities the industry faces the risk of overcapitalizing and duplicating existing infrastructure. Industry analysts state that it will be far more efficient to establish joint ventures or mergers that will result in larger and more cost efficient facilities in strategic areas.

The major players have the difficult job of trying to ensure that future alliances are not seen to be anti-competitive, provide adequate returns to shareholders and growers, and keep costs to growers to a minimum. An aggressive AWB Ltd push into the grain handling and storage market could seriously erode community support for their fight to maintain the single desk.