

De-regulation of barley marketing in Australia and its impact on farmers

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Abstract: Barley marketing has been undergoing de-regulation in Australia since 2001, with most states moving to some form of complete or partial de-regulation by July 1 2007. De-regulation has seen a range of outcomes including greater access by farmers to different pricing mechanisms for barley over the growing season, and now the use of a futures exchange for barley on the ASX. A review by the Department of Agriculture and Food concluded that post the implementation of the Grain Licensing Authority there is some evidence that prices to Western Australian growers were higher than when the Grain Pool was the sole trader of WA barley.

Keywords: de-regulation, barley, pricing

Introduction

Over the past ten years, there has been major structural reform in the grains industry in WA and nation-wide. There has been rationalisation of industry from fifteen statutory marketers down to five major companies. Today, the main grain marketers in Australia are AWB Ltd, CBH Group, Australian Barley Board (ABB) Grain, GrainCorp and AusBulk. These changes are not complete and there will be further consolidations in the future as these companies strive to become larger and more competitive agri-business companies. Since the domestic wheat market was deregulated in 1989, all state domestic coarse grain and oilseed markets have been formally or de facto deregulated.

Economies of scale and ability to trade in a range of grain types are important in international grain and commodity trading and have been the drivers to change in Australia. AWB Ltd, the largest Australian trader, is small compared to the major multi-nationals and handles comparatively few product lines.

In 2002 Western Australian barley marketing was effectively partially de-regulated with the formation of the Grain Licensing Authority (GLA) to oversee the granting of special export licenses for prescribed crops in WA (barley, canola, lupins). The Grain Pool of Western Australia (GPWA) retained the main license for prescribed grain export from WA. Since then there has been a steady granting of barley export licenses to a number of Australian and international traders of grain.

The latest change was to the South Australian single desk for barley and effective July 1 2007, and means that bulk export barley will now be operating in a more contestable market in South Australia, rather than under the Single Desk arrangement. The new Act removes restrictions on bulk export barley shipments from South Australia. A contestable market will be introduced via a three year transition period whereby the Essential Services Commission of SA (ESCOSA) will operate an accreditation program for traders.

Impact of de-regulation on the industry

Identifying the impact of partial or complete de-regulation of marketing arrangements for grain has always been considered difficult, as in most cases there are few comparators within a market with which to judge

the changes. This is particularly so when considering the price premiums associated with market power attributable to single desks.

In 2006 The GLA commissioned an analysis on both feed and malting barley prices to better understand the impact it may be having on prescribed grain prices in Western Australia (Wilkins, et. al. 2006). The aim of this analysis was to determine if Western Australian barley prices had increased or decreased when compared to the other States of Australia since the commencement of the GLA. The other States included South Australia, Victoria and NSW.

Analyses of feed barley prices and malting barley prices over time were based at four ports and three ports respectively. The process used a combination of weekly time series for feed and malting barley and was then subjected to regression analysis using the REML procedure.

The key findings of the analysis were that “feed barley cash prices in general have decreased over time, but when comparing prices from before and after 1/8/2003 (i.e. the formation of the GLA), the Fremantle prices on average have shown less of a decrease (about \$11 per tonne) compared to ports in the Eastern States which is statistically significant. South Australia was in-between the Fremantle and Eastern States change. However, after adjusting for annual production for each State, all States have responded similarly with a price decrease on average of \$11 per tonne compared to Fremantle”.

In the case of malting barley “cash prices across all States have declined by up to \$46 per tonne since 1/8/2003 however Western Australian malting barley cash prices have declined on average by \$28 per tonne compared to \$43-\$46 per tonne in other States (i.e. about a \$18 per tonne decline) or 60% of the total decline experienced by the other States. However, after adjusting for annual production for each State, all States have again responded similarly with a price decrease on average of about \$14 per tonne compared to Fremantle”.

The analysis could not provide conclusive evidence that the partial de-regulation of barley marketing in WA was responsible for increased cash prices for barley in Western Australia but did show that with declining barley prices over the last six years, Fremantle prices have declined less than other States since the inception of the GLA.

Ladyman (2006) also conducted an econometric analysis of the effects of the pre and post granting of licenses by the GLA and at least for feed barley was able to conclude that a positive impact in the order of \$6.50-\$8.50/tonne resulted.

Clearly one of the impacts is to provide a wider range of buyers in the market place with price discovery for farmers occurring earlier than has occurred with traditional pooling options. This is particularly important where farmers wish to manipulate their cash flow options earlier in the season, as barley is often one of the earliest crops to be harvested. In recent seasons WA has seen up to 6 cash buyers operating from as early as June in some years. It does however change the way in which the farmer may need to operate as knowledge not only of cash options but the different pooling options that are also likely to be available becomes important in determining overall profitability from the different marketing options.

Barber (2004) in general made four major observations with regard to grain market de-regulation in Australia. The first and most significant was that there is no evidence of any general grain price decline as a result of deregulation in any of the markets studied. The second was that there is no evidence of any general or sustained effect of deregulation on prices, adverse or positive for grain at port, that is Australian growers receive the world price for barley with variations for local costs of freight and handling to port and Australia appears to be a ‘price taker’ in these markets, with prices being determined internationally. The third major finding was that there was no consistent price effect from deregulation. His fourth observation of effect of partial or complete deregulation of the barley and canola markets in Australia has

been the development of cash or 'spot' grain selling alternatives for growers. In particular, a higher proportion of growers now receive a fixed price for their grain more or less upon delivery.

The recent development of a futures market for barley on the Australian Stock Exchange is another mechanism by which farmers can develop price risk management. At the moment futures prices are set only for NSW and Victoria with delivery points in these states, and extension to South Australia and Western Australia would be desirable to ensure equal opportunity to any barley grower in Australia.

Potential risks from de-regulation

Many arguments have been made as to the benefits and costs of de-regulation from single desk to multiple purchaser systems. For long established single desk systems which have developed close relationships with the supply chain an unravelling of the seller/purchaser bond can cause significant short term re-evaluation of how business should be done.

Over the past 30 years breeding organisations in Australia have relied upon single desk sellers for information on quality characteristics necessary for market capture and retention. The single desk sellers have often been major investors in the breeding program. With multiple buyers of grain the traditional single desk seller has become less likely to continue that investment as other parties can capture the benefit with no cost. Developing new partnerships which provide quality information and market development will become an issue that will have to be addressed if the right signals are to be sent through the supply chain. Barber (2004) used the example of Coors which develops barley varieties for its own malting purposes as a way of maintaining control over a key input to its operations.

An important issue for a de-regulated market is that of openness and transparency. It is assumed that all growers are equally educated in the use of the pricing tools they have before them and that they have immediate access to the latest market information on prices and production. This is becoming less of an issue with high speed internet links, but the tools for comparison of different products are often not available in formats which are easily used. Imperfect information can flow as readily from information restrictions by international competitors as from the lack of comparison at the domestic levels.

The greatest long term risk could be a continued consolidation of buyers of grain, and the development of oligopsony structure which leads to less price competition for that grain. This would be of greatest concern where companies have regional control over one or more parts of the supply chain. Contestable markets for all components of the barley supply chain would seem to be in the interest of all parties involved in the business.

Conclusion

While there is no clear evidence that de-regulation has necessarily brought about significant impacts on at Australian barley growers, at the least there are signs that growers have more options for pricing and price discovery than existed under single desk systems. Issues of price and information transparency, market signals and consolidation of buyers need to be addressed to ensure competition is maintained throughout the barley supply chain.

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