



Queensland Agricultural Merchants Inc

Formerly QPSGMA Incorporated Founded in 1955

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The General Manager
Adjudication Branch
Australian Competition & Consumer Commission
PO Box 1199
DICKSON ACT 2602

FILE No:

DOC:

MARS/PRISM:

Dear Sir

Re: Submission on Proposed Joint Venture between AWB Limited and GrainCorp Operations Limited

Our Association wishes to submit a strong objection to the proposed Joint Venture referred to above. The Grain industry has experienced significant changes in recent years through the merger of major players and through strategic acquisitions by the big-end of town. These changes have seen a significant shift in market power and a concerning reduction in competition in the domestic market.

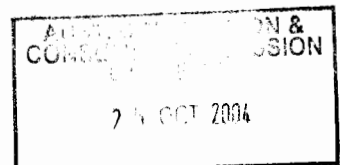
Firstly, I take the liberty to provide some background on our Association to assist you in understanding who we represent and a little about our role.

This Association was formerly known as the Queensland Produce Seed and Grain Merchants Association and was founded in 1955. It was formed to give independent merchants and traders in the seed and grains industry a collective voice in an industry that was dominated by statutory marketing arrangements.

The Association has been very successful over almost 50 years in bringing about changes which have resulted in free trade in much of the grain trade in Qld and Australia and remains today as the single strong voice of the industry in this State. It currently represents member companies with an estimated annual turnover in excess of \$1billion and employing some 600 staff. Members are predominantly merchants, traders and brokers however significant membership exists from associated industries such as logistics, seed testing, quarantine etc. The merchant, trader and broker members are the ones who are particularly concerned with this proposed merger.

The following points are submitted to you for consideration in your adjudication on this matter:

- AWB Limited has and is using its monopoly position with export wheat as leverage in the market place to dominate the market both internationally and domestically. The statutory powers held by AWBI and its subsequent management of the Single Desk by AWB Limited distorts what should be a competitive marketplace.
- Allowing AWB and GrainCorp to form a Joint Venture (JVCo) will only enhance the market dominance of AWB that is already being felt in the marketplace and will allow the impact of its export monopoly to be transferred up the supply chain..
- JVCo will allow the negotiation of favourable freight rates for AWB and GrainCorp. The impact and subsequent effect on the grain trade will depend on how this price advantage is used by the partners. Will this price advantage be passed on to growers through the National Pool by AWB to distort pool returns or will it be additional profit to AWB non-grower shareholders? Will GrainCorp pay a bigger dividend or will growers be advantaged in prices received?



- It is obvious that the freight advantages gained in the transport will distort pricing of all grains both export and domestic as movement between storages etc will become blurred between export and domestic wheat. The ability of AWB and GrainCorp to gain this freight advantage will increase the barriers that independent traders and merchants will have to face to compete in the domestic market. Additionally, the partners will have a price advantage in buying grain by being able to add the freight advantage to the price that they are offering growers. This will artificially push up the domestic price causing local consumers/end-users to increase their offers for domestic grain which will in turn impact on the price paid by end-users such as the intensive livestock industries and local feed-millers. This has become a serious issue in the feed grain market particularly in Queensland. This concern is reinforced by the partners in their submission on page 22 where it is indicated that a freight saving of between \$1.33 and \$4.00 per tonne could be achieved and they go on to say that *"Given that Australian grain prices are generally underpinned by export prices, the parties note that a reduction in export pool costs will not only increase pool returns but will also increase the price for the grain market in general."* This is likely to have the effect of loss of export earnings and loss of jobs in rural communities.
- Alternatively, it is possible that AWB and GrainCorp could use the freight advantage to improve their competitive selling position rather than increasing returns to growers.
- Opportunities for non-statutory marketers of bulk wheat will find it very difficult to compete with AWB in the export market even if they are able to achieve a bulk wheat export consent through WEA. The freight advantage through this JV will be enough of a price advantage to discriminate against other exporters.
- It would be naïve to accept the assurances of AWB and GrainCorp that the freight arrangement will be strictly limited to bulk export wheat. Both GrainCorp and AWB are in the business of buying, selling and exporting other bulk grains and it will be logical for the rail freight operators to provide the partners with incentives for the transport of these other grains. This will once again provide unfair competition for independent traders and merchants that rely heavily on trade in other feed grains.
- Any further reduction in competition in the grain trade must be viewed with serious concern by the ACCC. There is a real threat of the development of a monopoly/duopoly in this trade. These developments will harm our members directly and also lead to reduced returns to growers.
- The ability of AWB and GrainCorp to utilise its unfair advantage gained solely through statutory powers to grow into a monolithic company, that is now using sales tools such as the Landmark Voucher system, to impact on the merchandise, chemical and fertiliser sales market to the detriment of small independent merchants is at the very least shameful in a country that prides itself as a champion of free enterprise and fair competition. Preferential arrangements such as these being offered to growers that are willing to use AWB seed, protected by PBR, is leading towards a major dominance in the marketplace. The ACCC should be looking very hard at these and other practices employed by AWB to ensure that there is room in the market for healthy competition.

Our members are confident that the ACCC will come to the view that this proposed joint venture is not in the best interest of competition in the grain trade and will not approve that it proceed. We trust that the points raised will assist in your adjudication on this matter.

Yours faithfully



Mel Binnington
Executive Officer