AgForce Grains Ltd.

A commodity council of AgForce Queensland ABN: 212 416 791 71

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Submission to the ACCC Grocery inquiry by AgForce Grains on March 11th 2008.

AgForce Grains is the peak representative body for grain producers in QLD and this submission to the ACC Inquiry into the Competitiveness of Retail Groceries is on their behalf.

Grain producers, and particularly wheat producers, have had serious concerns over the rising cost of food for consumers whilst they fail to see similar increases reaching them in terms of farm gate prices.

In early 2008 AgForce did some basic calculations on the increases in the price of bread and the increase in the price of wheat at the farm gate. Serious disparity is shown in the figures presented below.

It is frustrating for farmers to see that soaring grain prices are being used in the media as justification for bread price increases of more than 70c/loaf in the past 12 months.

Basic calculations on additional returns to wheat growers from price rises in the past 12 months only amount to about 10.05c out of the 70c/loaf increase, returns which have been reduced through increased farm input costs such as fertiliser, fuel and herbicide costs.

In a typical loaf of bread there is about or 400g of flour. This 400g of flour comes from about 534g (0.000534 tonne) of wheat based on a standard flour turn out of 75 percent.

If wheat is $200/tonne, it costs 10.7c/loaf, if it is $250/tonne as it was 12 months ago that's 11.35c/loaf, and if it is $400/tonne as now then it costs 21.4c/loaf.

Bread prices may be up 70c/loaf on last year, but only 14 percent of this is accountable to grain costs. The remaining increase of 86 percent is the costs and profits of transporters, marketers, flour millers and/or bakers.

AgForce Grains is of the opinion that there is a far greater impact on bread prices from rising fuel and energy costs, labour costs and other inputs than the price of wheat. It is disappointing that some flour millers provided their bakeries with pictures of headers harvesting wheat with the caption blaming the drought and wheat prices for the increase. It is not our wheat farmers who are to blame for the price rises.

With a standard white loaf now costing about $3 per loaf, how can the 21c worth of wheat be the publicised reason for the increases consumers are facing?

AgForce welcomes this inquiry by the ACCC into the competitiveness of retial prices of standard groceries and we hope your further in-depth analysis of the bread supply chain and others helps to challenge retailers who are saying that drought and the higher prices being paid to farmers is the reason for escalating food prices. From the farmers' point of view, consumers are being misled by some retailers with farmers being used as the scapegoat.

In response to the questions posed by the ACC in their Issues paper AgForce Grains has the following responses.

66 What are the major influences on the prices you receive for your produce? How are your prices determined? What proportion of the retail price of the product do you receive?

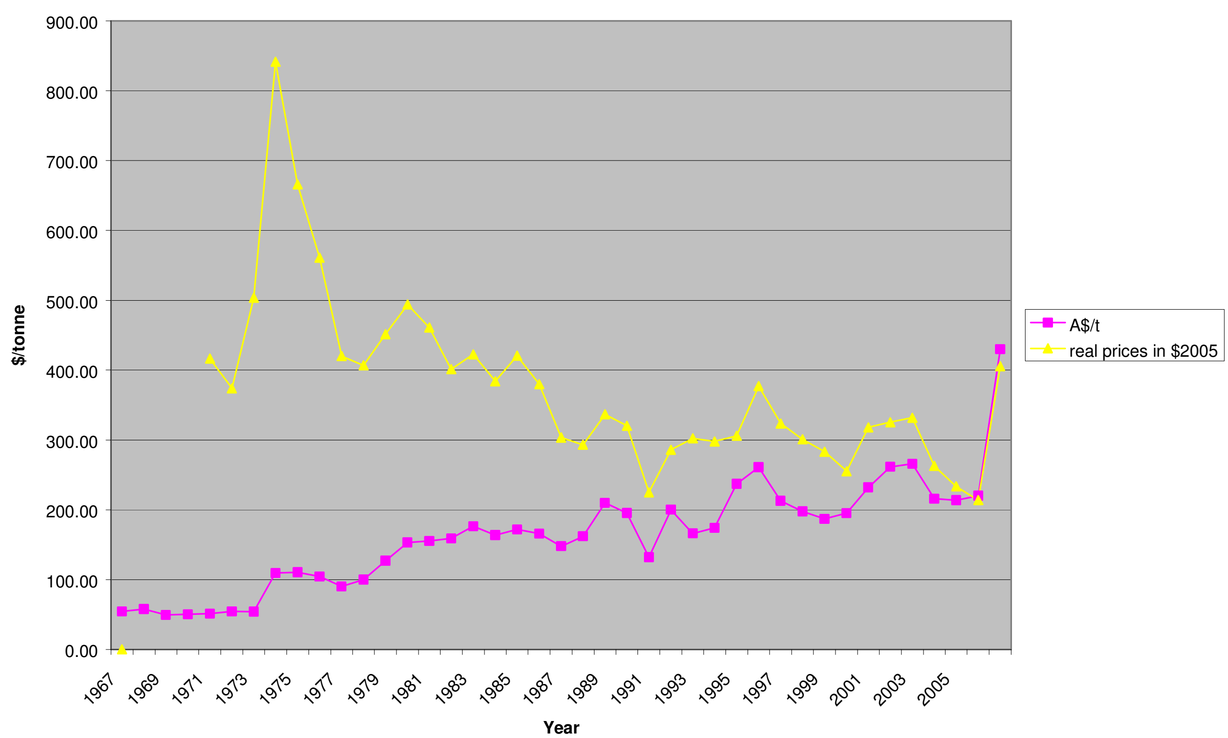
The major influences for the price of grain in Australia are supply and demand systems on the world and domestic markets. In high production years we often see the price of grain fall to export parity levels or below, but in drought years such as we've seen in recent times the price becomes based on domestic supply and demand.

Domestic supply and demand in the grain market has a great influence over the retail price of baked and other goods containing grain, particularly in drought years. This supply and demand is driven not only by the human consumption market, but with the large increases in the number of animals on feed, the intensive livestock industries help drive the market.

The domestic grain market is largely unregulated and the price received by farmers usually reflects the supply and demand situation well. However, farmers are concerned that this same fluid market is not prevalent for consumers. As outlined in the introduction above small increases in the farm gate price for wheat have led to huge hikes in the price consumers are paying for their bread.

67 Have the prices you receive for your produce changed over the past 1 to 3 years? What have been the major reasons for any changes in the prices you receive? Have your costs of production changed over the past 1 to 3 years? Have the prices you receive for your produce changed by more or less than your cost of production? Please provide details?

After many years of almost static grain prices, recent supply shortfalls across the world have driven prices to levels possibly never seen before. The graph below shows the real price of wheat from 1966 to 2007 using figures from ABARE against the CPI increases over that time.



Graph 1: The price of wheat at the farm gate from 1967 in $A vs the price in Real $A.

It is clear from the diagram above that the real price of wheat over the past 40 years, apart from a spike in the 1970's, has steadily declined. This has made sustainable production of grain more difficult over time forcing farmers to find greater efficiencies in their business and production systems. It has only been the fact the grain growers have had the highest level of efficiency growth of any sector that has kept production continuing.

Unfortunately whilst we have seen an increase in the farm gate price for our product our input costs have risen significantly. In the past 12 months the price of fertiliser (our most costly input) has doubled and the price of our major chemical, glyphosate, has tripled. This is putting a tight squeeze on farmers as their businesses emerge from the drought with high levels of debt, an increasing interest rate and increasing climate variability.

68 To whom do you sell your produce? What supply arrangements do you have with the buyers of your produce? Do you sell any of your produce to the MSCs? If so, what options do you have if you decided not to sell to the MSCs (other grocery retailers or wholesalers, food processors, exports, etc?)

Grain producers do not usually sell their produce direct to MSC's. The supply chain involves a number of players before the product is processed and sold to MSC's.

There are a large number of buyers at the farm gate for grain. The market is transparent and works well. There are many marketing options available to farmers from immediate cash sales to forward contracts, puts and swaps to pools.

Growers use a number of these products to balance their marketing risk in any one year, commonly with more than one buyer. The problem is not at the farm gate in our opinion, it is further up the chain as the number of flour millers and eventual retailers is reduced to but a few at each stage in the chain.

These oligopolies allow for some level of market manipulation and it is our hope that this inquiry will determine if any price gouging is occurring in that supply chain and if a fair price is being passed to consumers and if the supply chain from farmers to retailers can get inputs at a competitive price.

69 If a MSC put pressure on you to lower your prices would you attempt to 'make this up' by charging more to other wholesalers and retailers, or would you also lower your prices to other wholesalers and retailers so they can remain competitive in grocery wholesaling and retailing?

This question is not completely relevant to the grain market as we are not faced with a small number of buyers for our product on the domestic market. Good competition exists at the farm gate for grain and a reasonable, but not perfect, supply of information is available to the market participants.