



17 April 2014

**Agricultural Competitiveness Taskforce
Department of the Prime Minister and Cabinet
PO Box 6500
Canberra ACT 2600**

Re: Agricultural Competitiveness

This submission from the Stock Feed Manufacturers' Council of Australia (SFMCA) is made in response to the Agricultural Competitiveness Issues Paper released for comment.

The SFMCA represents both commercial and integrated companies manufacturing animal feeds and supplements for all classes of livestock. Our members manufacture in excess of 5.5MMT of feed annually and they are the largest domestic user of grains and protein meals.

Our industry plays a key role in the supply chain in value adding Australian grown grains and pulses, animal and vegetable protein meals, milling by-products, molasses, fats and oils. These raw materials are converted into animal feeds used by Australian livestock producers for the production of meat, milk and eggs for both domestic and export market consumption.

This submission addresses two issues, these being **Ensuring food security in Australia and globally** and **Skills, training and education inputs to the agricultural value chain**.

Food Security

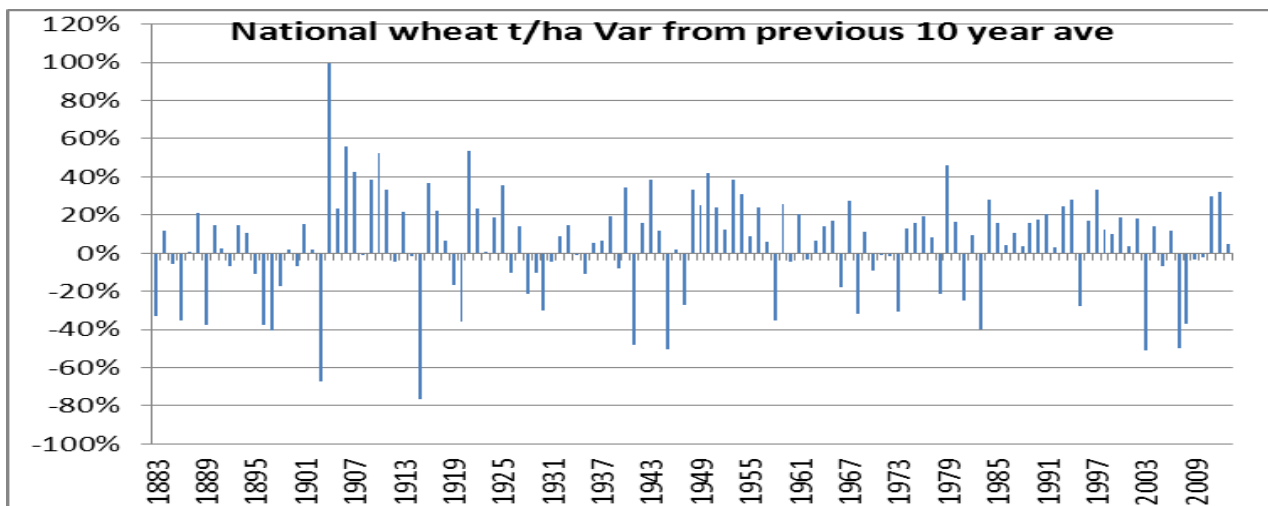
The sentiment that we need a stronger and more competitive agricultural sector is seen as a pre-requisite for Australia. We however see a number of threats to our nation's food security and our expansion as an exporter of food products. These threats have the

potential to negatively impact the long term viability of Australia’s farmers and our food processors. The production of livestock and the various input industry suppliers, including feed manufacture, has seen considerable growth in the production of meat, milk and eggs. In particular the chicken meat, beef feedlot and dairy sectors have shown significant increases in the volume of feed being utilised and raw materials required for their manufacture. Over the last 20 years the increase in feed use has been over 200% in the beef feedlot, 130% in chicken meat and 80% in the dairy industries. This level of growth has exceeded the rate of growth in Australian grain production.

Threat 1: Drought and grain supply

The greatest threat to Australia’s intensive feeding livestock industries is interruption to grain supply, with the impact of drought reducing supply and resulting in price escalation. Figure 1, based on ABS historic data, looks at annual wheat production variation against each prior 10 year period. This illustrates the regularity of below average production years and the frequency of supply shortfalls.

Figure 1. Australian annual wheat crop yield (t/ha) relative to prior 10 year average 1883 to 2012



Source: derived from ABS data

Since 1883, Australia has experienced reduced grain production as follows:

Wheat yield decline in a single year compared to prior 10 year average	Occurrence in 130 Year history	Frequency %	Frequency 1 year in every
>25% wheat yield decline	21 years	16%	6.2 years
>33% wheat yield decline	17 years	13%	7.6 years
>50% wheat yield decline	5 years	4%	26.0 years

Assuming the majority of the variation in wheat yield is the result of rainfall and subsequent crop growth; what is seen is the frequency of drought and the realisation that grain production is significantly affected at least once every seven years, with a greater than 50% decline occurring once every 26 years.

The last drought year where grain had to be imported was 2003. There remains significant limitations in importing grain with use restricted to port zone feed manufacturing sites. The SFMCA estimates that when the next drought occurs and grain has to be imported, current import controls would only allow an annual use of 1MMT of imported grain. Grain would not be available for feed manufacturers and livestock producers inland of the port zones. Under a major drought or a drought covering two winter cropping periods, Australia will run out of grain.

Threat 2: Grain Stocks and Information

Deregulation of the wheat export desk has resulted in two major changes to the domestic grain market:

1. Reduced season end carryover stock levels. Historically the AWB held grain within the bulk handling system for supply to both domestic and export markets in the following marketing year. This provided flexibility in holding pool wheat for the domestic market, with access to this grain being through the AWB tendering system. With deregulation, there has been a shift in the speed and timing of wheat export, with wheat shipments taking place earlier in the marketing year. This has resulted in a faster decline in stock available to the domestic market. In an average year domestic buyers ensure they purchase grain to cover their requirements until the next harvest period. However since deregulation, we have not had a drought year and the impact on the availability of grain to meet domestic demand (both flour milling and feed manufacture) is uncertain. Based on the decline in carryover stocks, the SFMCA speculates that Australia will have to import grain earlier and in larger volumes than in previous drought years. Added to this is the growth in demand from the domestic flour and feed markets since our last drought.

2. Lack of grain stocks information. Collection and publication of wheat stocks held by the major grain marketers ceased in July 2012 as no further funding was made available following wheat export deregulation. In a normal year the lack of grain stock data has limited impact on the market. However the major issue of not having public release of grain stocks only becomes apparent during supply shortage or drought years.

During 2003, the SFMCA took part in a drought crisis meeting convened by the Federal Minister for Agriculture. This was prior to the final approval allowing bulk grain imports, both wheat and sorghum. A central aspect of this meeting and a major policy position problem was lack of grain stocks data available to the department and government to enable a grain importation approval decision to be made. It is of note that the level of grain stocks reporting has declined further since 2003. This is a food security issue that at some future point another minister will have to face.

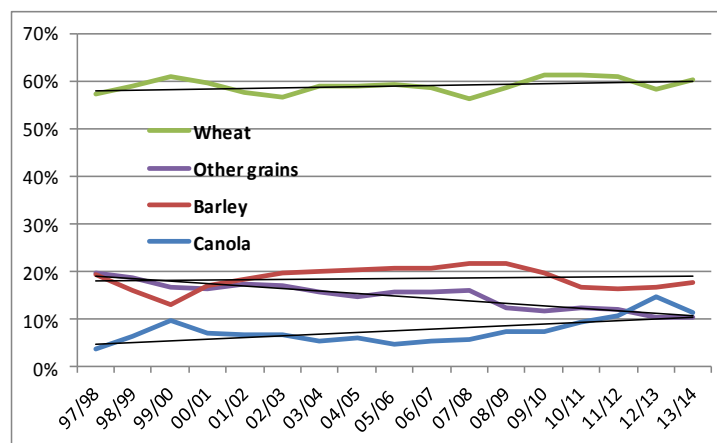
The question is not if we will have another drought, rather when will we have the next drought? Grain use on the east coast in feed and flour has been rising faster than grain production, this increases the likelihood of a grain shortfall and the need for more rather than less grain stocks information. There are significant political problems facing a government when Australia has its next drought, one of these being no ongoing release of grain stocks data by the major grain marketing companies.

We would ask on what basis can grain import approval be made when we have our next drought if there is no system for release of grain stocks? The government and the minister will be left with a country running out of grain and no one with information to identify the problem prior to it occurring. We believe that from a national food security position, both human food through flour milling, baking and starch manufacture as well as livestock food products derived from grain feeding, there is an essential requirement for the Australian government and the public to have access to grain stocks information.

Threat 3: Decline in dedicated feed grain production

With the growth in domestic grain demand from the feed and livestock sectors, together with the significant growth in demand from the Asian and Middle East feed markets, it is surprising that Australia is seeing a decline in the production of dedicated feed grains. Figure 2 identifies the production trends for wheat, barley, canola and other grains. Other grains, including sorghum, triticale, maize, oats, lupins and peas, has declined from 20% to only 10% of the Australian cropping area. In contrast there has been strong growth in the area planted to canola and a lesser increase in wheat area.

Figure 2. Percentage of hectares of wheat, barley, canola and other grains 1997/98 to 2013/14. Source: ABS and ABARES

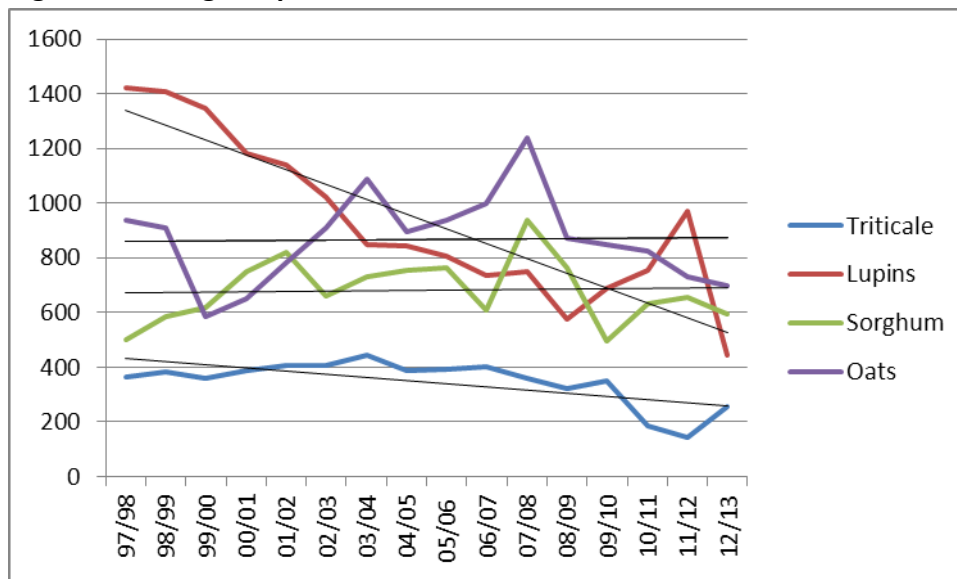


The production of triticale and lupins as dedicated feed grains have declined dramatically (Figure 3). The change in area planted for each of four crops is:

Triticale	-2.60% change/year
Lupins	-4.11% change/year
Sorghum	+0.19% change/year
Oats	+0.07% change/year

While triticale and lupins have declined, there has been no growth in the area planted to oats or sorghum over the last 15 years.

Figure 3. Feed grain production in '000 hectares 1997/98 to 2012/13.



Source:ABS

Added to the decline in dedicated feed grain production, is the change in wheat and barley breeding priorities. With the move from government based breeding programs to private enterprise, there has been increased focus given to breeding milling wheat and malting barley varieties. In contrast the breeding of feed varieties has been reduced. This change is largely driven by companies seeking to gain a higher return on their breeding investment from milling and malting breeding programs. There are major limitations in the end point royalty system and its collection that works against breeding feed varieties. The SFMCA believes that the EPR system is a failed model for the breeding of feed grain varieties.

Wheat and barley breeding has a 7-8 year time lag between the initial selection and commercial release of a new variety. The change in breeding focus away from feed varieties is yet to have impact on the market as there have remained some feed varieties in the breeding pipeline. Looking ahead, Australian wheat and barley growers will not have the availability of higher yielding feed varieties and the proportion of wheat and barley grown for animal feeding will decline. This will result in two outcomes:

- Domestic feed markets will be forced to use an increasing amount of human consumption wheat and barley to feed animals.
- Australian grain available for export will be human milling quality, when the major global growth is occurring within feed markets. i.e. Australia's grain, surplus to global milling demand, will be competing in the global feed grain market against lower priced overseas feed grains.

The downside for Australian grain growers is the lost opportunity in growing higher yielding feed varieties that could more than offset the price differential between milling and feed segregation. From a broader community perspective, the production of human consumption quality grain that is used to feed animals presents a number of ethical and sustainability questions.

Food security conclusion – the SFMCA believes that Australia lacks policy direction with respect to the production and supply of feed grains. This will be highlighted when the next drought occurs. The opportunity exists under the Competitiveness of the Agriculture Sector white paper to address this limitation through the development of a feed grain national policy.

Skills, training and education inputs to the agricultural value chain

Australia has seen a dramatic decline in the number of students completing agricultural science tertiary education. In the late 1980's there were annually 800 students completing agricultural degree courses, by 2010 this had declined to only 300 students. Employers within our industry have found it extremely difficult to find graduate qualified staff to work in areas such as animal nutrition, feed technical sales, farm extension and customer services. Added to this is the number of agricultural graduates working in the industry that will be hitting retirement age within the next 10-15 years. It can be seen that Australia is facing a major gap in its agricultural skills base.

While some agricultural graduates are being sourced from overseas, they lack training and understanding of Australia's unique agricultural systems and practices. In some cases unqualified staff are having to be employed to fill roles previously serviced by

agricultural graduates. It can be seen that Australia's base level of university trained agricultural scientists is in a significant decline.

While the demand for agricultural graduates by employers has not declined, there has been a broader misguided perception that agricultural is an old industry offering limited career opportunities. We believe that this view is held by many school careers advisors that mistakenly associate studies in agriculture with working as a farmer. The change in attitude toward having a career in agriculture must start at school level prior to the enrolment decision is made.

We support the initiatives being shown by the Australian Council of Deans of Agriculture in trying to raise awareness of agricultural studies. There are also various industry bodies that have been endeavouring to raise the profile of their industry as a potential career opportunity. However, there needs to be much more co-ordinated action in changing community perception of agriculture as a career path. This issue is much larger than attracting farm workers to remote regions; it covers both large and small companies and government departments operating in all parts of Australia.

Skills, training and education – the SFMCA believes Australia needs to have a co-ordinated approach, including government, industry and educational institutes, to changing the perception about careers in agriculture.

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