



15th April, 2014

Secretary
Agricultural Competitiveness Taskforce
Department of the Prime Minister and Cabinet
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The Australian Oilseeds Federation (AOF) is the peak industry body for the Australian oilseed industry, with membership spanning the value chain, including seed breeders, producers, grain handlers, processors and food and feed manufacturers and exporters. The value of the industry is conservatively valued at \$3.05 billion, with close to half the value creation represented in direct agricultural production (canola, sunflower, cottonseed, safflower and soybeans). The role of the Federation is to promote the development, expansion and improvement of Australian oilseed industry, and to facilitate linkages throughout the value chain for the common good and value creation of the industry.

The AOF welcomes the initiative underpinning the review into Agricultural Competitiveness and looks forward to policy outcomes which enhance Australia's ability to more effectively compete in global agricultural markets for both bulk as well as processed products.

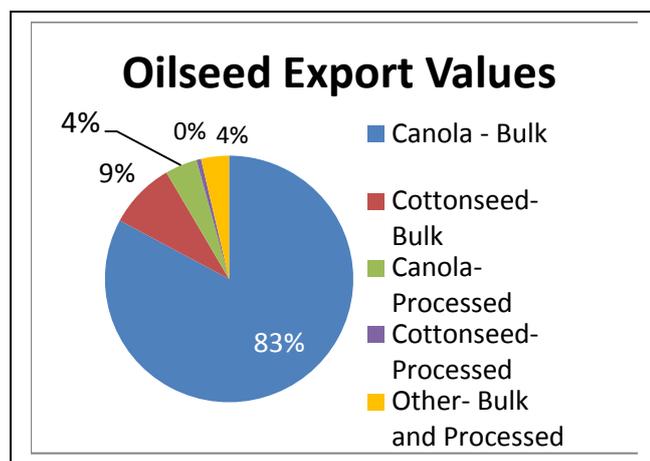
The oilseed industry is a vital component of the agricultural sector, with canola being the third largest winter crop after wheat and barley, and well entrenched in the rotation program of most cereal farmers. Australia is also a major exporter of oilseeds, being the largest exporter of cotton seeds and the second largest exporter of canola globally.

Key statistics for the oilseed sector are represented in Table 1.

Table 1: Australian Oilseed Value (\$ million)

| | Canola Value | Cottonseed Value | Other Oilseeds (Sunflower/Soybean/Safflower/linseed) | TOTAL Value |
|----------------------------|--------------|------------------|--|--------------|
| Production | 2,534 | 349 | 66 | 2,949 |
| Seed Exports | 2,094 | 220 | 6 | 2,320 |
| Oil Production | 370 | 75 | 34 | 479 |
| Meal etc Production | 140 | 78* | 37~ | 254 |
| TOTAL | 2,603 | 373 | 77 | 3,052 |

Source : AOF statistics * includes whole seed used as feed; ~includes soybeans and sunflower used for food.



Of the exported value of Australian oilseeds, well over 90% is exported as unprocessed commodities (ostensibly canola seed and cottonseed), with a small portion exported as high value processed oil (crude and refined) and meal.

Source: ABS 2012/13 export data

The two key aspects for improving Australia's competitiveness in the global oilseed context are:

1. More efficient (lower cost) logistics from farm to port for bulk commodities;
2. More efficient (lower cost) transformation for both domestic and export processed oils.

In responding to the Issues Paper, this submission will focus on opportunities that will address these factors, as well as highlighting current obstacles to being more competitive internationally. In the main, this will relate to the following issue areas outlined in the Issues Paper:

Issue 4: The competitiveness of the Australian agriculture sector and its relationship to food and fibre processing and related value chains, including achieving fair returns;

Issue 6: The efficiency and competitiveness of inputs to the agriculture value chain—such as skills, training, education and human capital; research and development; and critical infrastructure;

Issue 7: The effectiveness of regulations affecting the agriculture sector, including the extent to which regulations promote or retard competition, investment and private sector-led growth;

Issue 8. Opportunities for enhancing agricultural exports and new market access; and

Issue 4. The competitiveness of the Australian agriculture sector and its relationship to food and fibre processing and related value chains, including achieving fair returns.

The greatest opportunity for value creation within the oilseeds value chain is for greater on-shore processing of oilseeds into refined oil and high quality oilseed meal, and for these products to be exported. Australia, with an ongoing exportable surplus of canola and cotton seed, faces the ludicrous situation of importing canola and cottonseed oil from south-east Asian refiners because they are more competitive in supplying Australian wholesalers are end-users than domestic refiners. Historically, Australia has operated a very fragmented and

expired capital base in the refining of vegetable oils. However, in recent years, industry has taken the initiative to close old plants, while initiating heavy capital investment in new 'state of the art' refineries. Despite these private enterprise commitments, government regulation and tax policies are hindering the potential of these new plants to maximise their low-cost potential, and compete effectively with near-asian oilseed processors.

Foremost in terms of cost imposition is the Carbon Tax. The refining of vegetable oils is an energy intensive process, and the imposition of the carbon tax in 2012 has added an immense cost burden to the industry, placing greater cost competitive pressures on exporters competing with refiners from countries with no such tax. The AOF recognises and supports the current government's policy to abolish the Carbon Tax, however the obstruction currently being experienced in the Senate serves only to continue to place Australian vegetable oil refiners at a distinct competitive advantage in export markets.

Additional costs such as tariffs on imported processing machinery (which cannot be sourced locally), onerous local and state government planning requirements and state and federal road, rail and port charges also place Australia's oilseed processors at a competitive disadvantage relative to primary competitors (in particular, Malaysian and Singaporean oilseed crushers and refiners).

AOF Recommendation 1:

That the Competitiveness of Australian Agriculture White Paper specifically addresses the cost incurred by Australian oilseed based (or *all*) food and feed export-oriented processors with the aim of establishing a policy platform that addresses uncompetitive cost structures faced by exporters aiming to convert Australian agricultural produce into higher value, processed food and feed for export markets .

Issue 6: The efficiency and competitiveness of inputs to the agriculture value chain—such as skills, training, education and human capital; research and development; and critical infrastructure;

While the Australian oilseed producer is world competitive at a production level, drawing on world's best agricultural practice and with access to the latest technology¹, much of the benefit is lost between the farm gate and port as a result of antiquated infrastructure. While our major competitors in global canola trade (Canada and Ukraine) also experience less than optimal logistics from farm to port, mooted improvements in our exporting competitors' logistics risk placing Australia well behind them in the medium term unless logistics can be improved. While this is an issue overall for Australian grain, it can be exacerbated with canola where it can take third priority to wheat and barley.

Although Australia is experiencing a growth in private investment in port grain loading facilities, the rail infrastructure, particularly in the eastern states, remains a bottleneck adding cost and complexity to the supply chain to port. This complexity often results in deliveries to port by road, which is more costly on a direct basis, as well as attributing a higher social cost.

¹ With the exception of S.A. and Tasmania where farmers are denied the choice between conventional or GM technology in planting seed.

AOF Recommendation 2:

That the Competitiveness of Australian Agriculture White Paper specifically addresses the cost and inefficiencies involved in transporting grains, particularly canola, from farm to port through a determined policy objective.

Issue 7: The effectiveness of regulations affecting the agriculture sector, including the extent to which regulations promote or retard competition, investment and private sector-led growth;

Australian agriculture, and its downstream affiliated industries, operate within many sound and time-proven effective regulatory frameworks, such as the APVMA, OGTR and FSANZ.

Within the oilseed sector, one particular regulatory anomaly is in relation to State based moratoria placed on the commercial cultivation of GM crops, which adds unnecessary cost to the value chain, while denying growers in the moratoria-bound states (South Australia and Tasmania) the opportunity to access world-class, environmentally-sound, and above all, federally-approved, technology.

In those state where GM canola has been commercially grown for a number years (7 years in NSW/Victoria; 5 years in WA²), the value chain has been able to demonstrate the ability of effective segregation to enable growers to freely choose the technology they wish, while also enabling and end-users (food and feed manufactures) to choose the genetic status of the seed from which the oil and meal has been sourced.

While the impediment of state based moratoria in relation to commercial GM cultivation is beyond the remit of the federal jurisdiction, it is important that the White Paper recognise the strength of the regulatory framework surrounding GM technology, and highlights the importance of 'freedom of choice' for growers in all states.

AOF Recommendation 3:

That the Competitiveness of Australian Agriculture White Paper recognises and supports the regulatory framework supporting the introduction and commercial cultivation of GM crops, while stressing the importance of allowing all Australian growers the ability to choose the GM status of the crops they choose to grow.

Issue 8: Opportunities for enhancing agricultural exports and new market access.

As identified in the opening to this submission, the primary value creation for oilseeds is through export channels, with over 70% of the total industry value being realised through sales of bulk seeds (canola or cotton), oil (crude and refined) and oilseed meal to overseas countries.

Canola, as bulk seed, oil or meal, constitutes 87% of the export value of oilseeds and related products, and is the focus for the AOF. The AOF works closely with the Grains Industry Market Access Forum (GIMAF) and Department of Agriculture (TMAD, Export Certification) to ensure market access issues are addressed and manages. The recent (March 2013) re-opening of

² Includes the 2014 planting year

China for canola trade was a case in point where the AOF worked closely with GIMAF and the Department for a highly successful outcome.

The importance of skilled and proactive agricultural resources based in key markets cannot be over emphasised. For oilseeds, this relates the need for strong Australian Department of Agriculture representation in the key markets of China, the EU and the US.

AOF Recommendation 4:

That the Competitiveness of Australian Agriculture White Paper recognises the importance of appropriately skilled agricultural representatives in key (oilseed) export markets, and establishes a policy position to continue and strengthen such resources.

The AOF welcomes the outcomes for oilseeds recently achieved with the FTAs (Korea and Japan), however would like to highlight a weakness in the DFAT/industry communication channel, whereby the outcomes related to oilseeds (and related products) were negotiated without consultation with the industry, and have resulted in protracted zero tariff time-lines beyond those realised by Canada, Australia's primary competitor in these markets for canola. In future, while the AOF recognises it needs to play a more proactive role with DFAT, it is also upon DFAT to ensure intended negotiated positions are provided to the AOF through confidential briefings.

AOF Recommendation 5:

That the Competitiveness of Australian Agriculture White Paper recognises the importance of ongoing liaison between AOF (industry representative bodies) and DFAT in the proposed negotiated positions in relation to FTAs.

The AOF welcomes the opportunity to elaborate on any of the points or recommendations made within this submission.

Yours sincerely,



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Executive Director, Australian Oilseeds Federation.

