

Australian Grain Exporters Association Submission to the Department of Agriculture Agricultural Competitiveness Issues Paper

Background to AGEA

The Australian Grain Exporters Association (AGEA) was formed in 1980 and is the representative body for exporters of Australian grain. AGEA represents its members to facilitate an efficient and effective export industry. Members are active in grain accumulation, storage, handling and processing, as well as risk management and hedging strategies involving commodity futures, foreign currency and counterparty risk. AGEA member companies also have substantial investments in non-grain sectors related to the rural economy, such as meat processing and intensive livestock production, oilseed crushing, fertiliser distribution, cotton trading and ginning, ocean freight ownership and bulk and container shipping.

AGEA supports open and contestable markets. AGEA's focus is on assisting Australia to grow its exports of grains and oilseeds. It brings the export sector together to focus on pre-competitive issues that underpin the position of Australian grains and oilseeds in world markets and to ensure that the export supply chain operates efficiently.

Further information about AGEA may be sourced via <http://www.agea.com.au>

Introduction

The Australian grains industry has responded favourably to the new marketing environment that has resulted from the deregulation of the wheat and barley marketing arrangements over the last decade. Australian grain remains in strong demand globally and growers now have more flexible access to a selection of accredited buyers, offering a variety of marketing options. Product differentiation provides opportunities across the value chain and a competitive deregulated system can best deliver this need, while also servicing large volume customers.

Since deregulation of wheat and barley market arrangements, the industry has seen renewed interest by offshore companies. The grains industry is a global business and foreign investment is one mechanism for ensuring the industry can build economies of scale and can access and leverage global knowledge, technologies and innovations.

AGEA welcomes the opportunity to comment on the issues for consideration in developing an Agricultural Competitiveness White Paper. It supports this holistic approach to agricultural policy and the opportunity to provide input into some of the longer-term strategic issues that industry and Government need to address to ensure that the competitiveness of the grains sector is maintained and enhanced and future opportunities captured.

The Australian agriculture industry is well placed to continue and increase its role in global opportunities for food, feed and fibre. The grains industry is well positioned to capture the forecast growth in Asia and Asia already represents the major trading region for a number of grains and oilseeds. The growing underlying food demand from Asia will continue to underpin Australia's grain export activity, with feed demand being very significant in some years.

The Issues Paper is extensive and this submission does not address all the issues raised, many of which are more appropriately directed to the production sector or do not have implications for the grains sector. Rather this submission highlights some of the grain industry and export sector specific challenges, opportunities and solutions that relate to issues raised in the paper. Some of the grain specific issues are applicable more broadly across the food and agriculture sector.

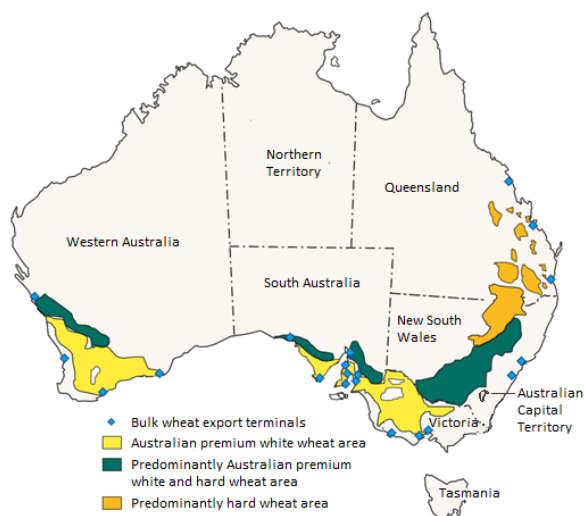
It should also be noted that while this submission is provided by the export sector, that many of the issues highlighted have flow on implications for producers and regional economies. By continuing to support and encourage greater efficiency in the grains industry the benefits will be felt by all parties in the chain from farm gate to end user.

Grains Industry profile

The Australian grains industry is a significant contributor to the national and regional economies. It has gone through a period of change with a continued shift to a deregulated market. It has responded favourably to the new marketing environment that has resulted from the deregulation of the wheat and barley marketing arrangements over the last decade.

The Australian grains industry produces around 35 million tonnes of grain each year, although the average over the past five years has been closer to 40 million tonnes. This is produced off an area of about 20 million hectares from across Australia and under a wide range of conditions. Despite diverse production regions, the Australian grains industry is highly productive delivering high quality products to domestic and international markets. The map below shows the major wheat (grain) growing regions.

Figure 1: Australia's wheat growing regions

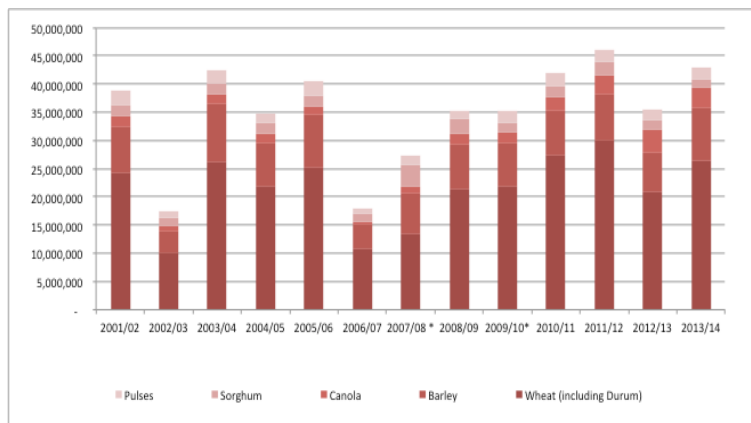


Source: ABARES Crop Report Feb 2014

The industry has an annual gross value of production of more than \$9 billion of which around 75% is exported. Grain production underpins important sectors in Australia's growing food processing sector, including the milling, malting and brewing industries (estimated value of \$6.6 billion) and the feed manufacturing sector that services the intensive animal production sector (beef, dairy, pork and poultry with estimated value of \$14.6 billion). The grains industry also plays an important role in the health of Australia's community through its contribution to healthy foods, food security and environmental stewardship.

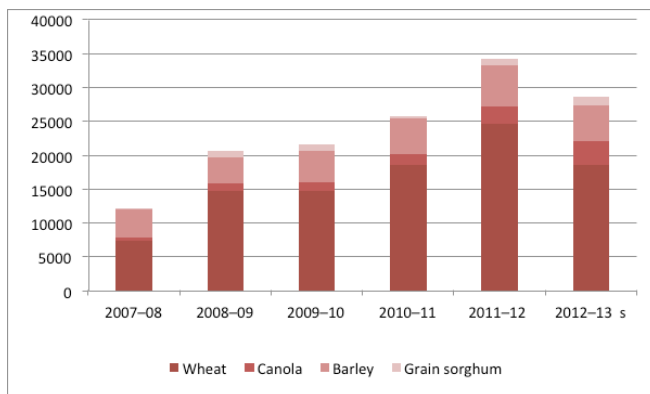
Australian grain remains in strong demand globally and growers now have more flexible access to a selection of buyers, offering a variety of marketing options. In 2013/14, Australia is forecast to have produced around 43 million tonnes of grains and oilseeds across its summer and winter cropping programs (refer figure 2).

Figure 2: Australian grain and oilseed production (tonnes)



Grains and oilseeds comprise Australia’s largest category of food exports, representing 24% of total agricultural exports in 2010/11. Grain exports is forecast to exceed 25 million tonnes in 2013/14 (refer Figure3). Australia exports to a large number of regions and countries, but due to its natural advantages (freight), quality and growing demand, Asia is a key destination across most of Australia’s major export crops.

Figure 3: Australian exports for major grains and oilseeds (mt)



Globally consumption of grains and oilseeds is at record levels. The key driver for this growth is the increasing global population (forecast to be 9.7 billion by 2050) and growing affluence. Importantly Asia is forecast to have the fastest population growth rate (forecast to grow by 54% between 2010 and 2030), followed by Africa at 41%. In response the global grain trade has doubled in the past 40 years.

Changes in the global wheat market before, and since, deregulation has changed the nature of grain trade flows; customer requirements; and quality system requirements. Key changes in the global marketing environment over the last decade, and particularly in the period since deregulation of the Australia export wheat sector, have resulted in a more competitive and flexible marketplace. In particular, the emergence of ‘non- traditional’ exporters such as Black Sea origins as well as India has resulted in a more competitive trading environment. This, along with technology and development of additives that are used to obtain equivalent or improved end use performance from a variety of milling wheats, has led to millers being more flexible in their purchasing behaviour.

In addition, there has been increased incorporation of wheat into feed rations as corn prices have been impacted by alternative energy policies. This has seen new market opportunities open up for Australian wheat.

Competition has and will continue to deliver a better industry outcome

AGEA supports open and contestable markets. AGEA's focus is on assisting Australia to grow its exports of grains and oilseeds. It brings the export sector together to focus on pre-competitive issues that underpin the position of Australian grains and exports in world markets and to ensure that the export supply chain operates efficiently.

Open and contestable markets will deliver a profitable and competitive industry. The Australian grains industry has benefited from deregulation. This is demonstrated by:

- More customers buying Australian wheat
- Australia has not lost a bulk wheat export market
- Container trade is growing also without market loss
- The quality of Australian wheat being exported is meeting market demands
- There is choice for growers in meeting end use requirements
- Increased investment across the supply chain

While the industry has adapted to and is benefitting from deregulation, further investment is required to ensure supply chains remain cost competitive and efficient.

Exporters are seeking a globally efficient supply chain in which they have certainty and the ability to execute sales; where relationships through the supply chain are commercially based; and where port capacity is contestable.

The Australian grains industry has responded to the deregulated market by ensuring it has the tools required for the market to operate efficiently. This includes:

- Expanded role for Grain Trade Australia in standards, contracts and dispute resolution including investment in a number of functions that support the standards
- Wheat Quality Australia manages the functions of classification and ensures Australia's classes and products match customer requirements
- Establishment of the Grains Industry Market Access Forum (GIMAF) which includes growers and the wider industry, to provide a strategic and proactive approach to managing market access issues
- Development of an Australian Grain Industry Code of Practice
- The industry was working towards a voluntary code on port access, but is now working with the Government on a mandatory code and the industry has worked positively together to provide to Government key principles for the Code

Enhancing production and decision making capacity

The Australian grains industry has demonstrated strong productivity improvement over a long period, with total factor productivity (TFP) for the broadacre grains industry averaging around 2% per annum from the 1970s to 2007-08. This growth has been driven by a range of factors including better farm management, more productive crop varieties, improved crop rotations, better disease, weed and pest control, adoption of minimum tillage, more efficient fertiliser use and increased farm scale. However, more recently the industry has shown a decline in productivity growth. While productivity growth averaged 4.4% per annum for the period 1977-78 to 1993-94, it was negative (- 0.9% per annum) for the period 1993-94 to 2007-08. This represents a major challenge for the industry.

Productivity growth is important to both the profitability of farmers (and to offset the decline in their terms of trade) and to maintaining Australia's competitiveness in global commodity markets.

Globally there is a gap emerging between consumption and output due to the rapidly growing demand on back of population and income increases. It has been estimated that TFP must grow by at least 1.75% annually to double output by 2050. The ability to meet growing food demands globally requires improved farm productivity.

The recent slowdown in productivity growth has focused attention on the instruments available to government and industry to promote increased productivity. Traditionally public sector investment in R&D and extension has been a key factor enabling agricultural productivity growth.

The R&D community is focused on this challenge and a concerted effort from a range of players is required to address this. The National R,D&E Strategy provides a basis for a coordinated focus on improving productivity. However, other important elements include continued Government investment in R&D, continued investment by the private sector to address the decline in public sector extension services and continued expansion of public:private partnerships in R&D and extension.

Other factors impacting on the ability to increase productivity include the increasing globalisation of private-sector grains R&D and consequent high cost of access to new technologies; increasing community scrutiny on the agricultural sector; and continuing real reduction in public sector extension and R&D resources.

There are a number of initiatives (industry and government) in place that underpin and support the Australian grain industry's ability to produce high quality products that are highly sought after by markets around the world.

Key elements that AGEA believes are critical for industry going forward and should be maintained are:

- *Support mechanisms to increase production, in particular, new technologies, new varieties and best management practices*
- *Support industry's quality management processes and need to maintain Australia's quality reputation including Wheat Quality Australia (WQA). WQA is a key tool for growers in determining which varieties to plant (refer section on quality management)*
- *Current R&D arrangements with the Government matching of R&D levies collected from farmers. The R&D corporation model, particularly in grains, is recognised globally as cornerstone of Australia's competitiveness. (Refer section on R&D)*
- *Safe practices across the supply chain – this includes programs to promote on-farm safety; use of technologies such as biotech that help reduce the volume of chemicals used and reduce use of high risk chemicals; and promote good hygiene practices across the supply chain e.g. GTA Code of Practice*

Technology

Technology is a key to meeting future demand for food and food ingredients. For the grains industry, the use of biotechnology and innovation is a key tool to boosting yields and production; and potentially developing new products that meet future consumer demands

Global adoption of GM crops shows that that biotechnology has assisted growers through higher yields and/or reduced input use and costs. As producers continue to pursue higher yields to capture higher prices and incomes, this is likely to lead to greater usage of biotech crops and a new cycle of innovation. Acceptance of biotech crops is not universal, but it is growing. Analysis of global trade patterns show that the market has adapted to meet customer requirements for non GM and GM crops; and that supply chains can operate at reasonable incremental costs even where there is significant adoption of GM and the majority of grain supplied to the market is GM derived provided there are realistic low level presence and adventitious thresholds in place.

The Australian grains industry supports the principles of market choice and AGEA supports the Market Choice document that was developed around the release of GM canola. This reflects that not all customers wish to purchase GM products. Any new GM crop that was approved by the Federal regulator would also need to meet the industry's market choice criteria.

The Government should support a policy environment that is encouraging of new technologies; support a position that sound science is the only criteria used to review the safety of biotechnology or other new technology; and address inconsistencies between Federal and State policies.

The Government should support the Global Initiative on Low Level Presence.

Quality management

The Australian grains industry has processes in place to manage standards, monitor and meet customer end use requirements and maintain integrity of quality. These processes are continually evolving and can be further enhanced.

These processes combine to develop a system that ensures customers receive grain that is fit for purpose and complies with contractual requirements; delivers to the diversity of customer needs and end uses; and maintains and/or enhances value through ensuring the integrity of quality. It also captures trends in markets and communicates these to growers on a year by year basis to inform production decisions; and growers, the R&D community, Wheat Quality Australia (WQA), etc to enable longer term strategic decisions that will shape the Australian crop,

There has not been any market failure in export wheat quality management with deregulation of the industry. However, the market has changed significantly over the past five years and combined with the changing structure of the Australian export sector, there is now greater flexibility for the industry to meet customer requirements and thus, there may appear to be more variability in quality.

In addition, communication channels are more complex and there are now multiple parties involved in capturing and communicating market signals and customer requirements through the industry. The industry utilises classes and grades to communicate to growers the collective requirements of markets and relative value of different types of wheat. These processes also help inform customers and these classes and grades are utilised to put together parcels of grain that meet the diversity of customer demands.

WQA manages the classification system for the industry and plays an important role in continuing to produce the Variety Masterlist and maintain a classification system that is robust, market oriented and sufficiently resourced.

Classification is an important component of the industry's quality management system and is valued by breeders, growers, the industry and customers. AGEA has actively supported the establishment and operations of WQA, through both a cash contribution and in-kind contribution through involvement on the Wheat Classification Council, support of WQA events and participation in a number of WQA activities. However, as has been widely recognised, the current WQA funding model is not sustainable. AGEA understands that the WQA members – GTA and GRDC – are working on new funding model to address the current constraints and put in place a funding mechanism to cover WQA's operations on a more consistent and equitable basis. In addition to this, WQA requires a one off investment to bring the system in line with current industry structure and requirements.

The Variety Masterlist produced by WQA and the GTA trading standards act in partnership to inform growers. There is a range of information and advisory services that provide support and advice to growers regarding on-farm quality management through GRDC, federal and state agencies and private providers. While customers are becoming more demanding regarding chemical usage and compliance, there are existing avenues through which to address this issue.

From farm to ship, the industry has a range of processes to manage quality which include:

- industry activities such as trading standards managed by GTA; National Working Party on Grain Protectants, GTA Code of Practice, etc
- individual company quality systems (both formal and informal) and protocols
- Government activities including the National Residue Survey, Export Certification requirements, etc. The NRS is a very valuable part of the industry's quality framework and AGEA encourages participation in this program.

These activities combine to provide a system that ensures the industry can and does meet customer requirements. Both industry and individual company processes are in place to ensure continuous improvement of these systems and flexibility to adapt to changing market requirements.

Education and communication activities to enhance grower and customer awareness of the industry's quality management system including classification and standards; and to provide feedback on the industry's efficiency and competitiveness are an ongoing task for the industry. There opportunities to improve industry activity in this area, along with the opportunity for better communication between supply chain parties.

The industry has maintained and enhanced its position since deregulation in terms of tonnes sold, markets and customers serviced, etc. While marketing activities may seem more fragmented today, the export sector undertakes a range of activities to service its customers and promote Australian wheat. WQA plays an important role in providing education to customers regarding the classes and classification system.

The Government should support WQA and support use of funds from the Wheat Industry Special Account to fund WQA's uplift requirements.

The Government should support investments in education and communication activities to enhance grower and customers knowledge of quality management systems.

R&D investment

Research, development, extension (RD&E) and innovation are fundamental to a successful Australian grains sector. The sector has historically been well served with world class research institutions. The sector's RD&E is funded through levies and direct investment, by the Australian Government through levy co-investment, by State Governments, by universities, CSIRO and other research providers.

The GRDC is a critical plank in the R&D framework for the grains sector through determining which RD&E projects will be funded based on the priorities of the sector and of the Australian Government and providing a key role as a coordinating body for research.

The government should continue the R&D corporation model and the matching grower levies with \$1 for \$1 funding.

Supporting food security concerns

As indicated above, globally the food security challenge will drive the development and delivery of new technologies to increase food production from increasingly limited resources (i.e. arable land and water) and with lower inputs (e.g fertiliser, chemicals, etc). In addition, the frequency and severity of climate variability is expected to increase. The Australian grains industry can make a significant contribution to addressing this challenge, but requires the appropriate frameworks to ensure that productivity growth continues and that the grain supply chain can ensure competitive and efficient delivery to customers.

Whilst food security is often an issue for countries of food production deficits, Australia regularly experiences grain production shortfalls in regional locations principally those servicing large domestic human consumption and livestock markets. Over the past ten years this has led to imports from overseas countries and movements from Western Australia and South Australia to east coast locations to service these markets. Current legislation restricting foreign flagged vessels operating with foreign crew is severely restricting the most cost competitive flow of Australian grain from areas of surplus to areas of deficit in the most cost effective manner. As an example the cost of moving a bulk shipment of grain from South Australia to Brisbane is approx. \$50.00 per tonne whereas a typical bulk grain export rate from South Australia to the middle east would be approx. \$35.00 per tonne.

The Government should review legislation regarding foreign flagged vessels.

Information

The issue of stocks information has been the subject of a number of recent reviews and the Government has accepted the Wheat Industry Advisory taskforce's recommendations for a voluntary stocks reporting system.

In the context of the current debate about stocks disclosure, the changed market environment has seen some fundamental differences to the market prior to deregulation and AGEA believes there is an opportunity to deliver improved efficiency in operation of markets through greater transparency and access by all parties to information.

The recent review by the Wheat Industry Advisory Taskforce (WIAT) examined the requirements for information disclosure at port and stocks information more broadly across the supply chain.

AGEA believes that the current level of information disclosure at port is adequate. Additional information at port will not provide the transparency of stocks information that is sought by some elements of the industry

In relation to stocks information more broadly, the focus should be on its contribution to an efficient and competitive supply chain. While the industry has responded positively to the deregulated market environment, stipulating stock quality and quantity information held within commercial storage providers across Australia could assist in creating a more informed and competitive market and assist to prevent market failures from occurring.

However, there are potential market inefficiencies and risks of competitive distortions across port zones unless this information is collected from all relevant parties. It should cover all major commodities and include receivals and stock on hand. The level of stocks information that would provide value to the industry is tonnes by commodity by port zone by quality. It is recognised that the level of quality disclosure is contentious. The level of disclosure that would provide market participants with sufficient information for good decision making and avoid potential market failures is by major type e.g. milling and feed wheat, etc.

While there are a number of parties providing information as part of a commercial service, these private forecasters are essentially making estimates without any means of the market verifying these forecasts/estimates. Access to stocks information will have broader benefits and, in the case of exporters, would provide a more level playing field as all exporters would have access to that information that may support a more efficient supply chain.

The experience of the Australian export program, as reflected in the shipping stem, over the past few years has been that it is 'a front end loaded' (December to June) export program. Access to improved stocks information as supply reduces should assist to foster competition for longer periods and supply chain efficiency. Today exporters take on significant risk with activity in the back end of the program.

An effective stocks information approach would benefit growers, parties from across the grains sector, Government and importantly the domestic food and feed processing sectors, with flow on implications for national food security.

The WIAT recommendations regarding the provision of stocks information that have been accepted by the Government should be extended to all commodities.

Supporting regional communities

Labour availability

The grains industry from farm through to storage and handling to processing and ports has a large regional footprint and a substantial demand for labour and, in particular, seasonal labour. Access to labour when required with the appropriate skills is a key constraint for the grain handling and marketing companies, in particular, in areas where the grains industry competes against mining (e.g. Newcastle, Port Kembla, etc). These companies are often unable to source Australian workers for the critical periods and utilise workers including backpacker labour, workers on temporary visas and the 'grey nomads'.

Lack of good quality services/infrastructure in regional communities does not assist with attracting high calibre employees into regional areas. Attracting and keeping seasonal workers in regional communities is also constrained by the fact there are limited other industries in these regional areas. Thus the seasonal workforce moves on and it is difficult to achieve continuity of keeping seasonal workers from year to year. This leads to cost and efficiency impacts due to the need for retraining etc.

The Government should support industries that play a key role in supporting regional communities and policies aimed at attracting people to regional communities.

Maintenance of the mechanisms to source temporary workers i.e. the Work and Holiday (subclass 462) visa (WHM) and the Seasonal Worker Programme (SWP) should be maintained.

Infrastructure investment required for a competitive grains supply chain

There is an opportunity to significantly improve efficiency in the grains industry through targeted investment in infrastructure. Infrastructure constraints, particularly rail, are significantly impacting on the efficiency of the grains industry. Grain rail transport infrastructure in Australia is deteriorating, with large maintenance investments required to ensure the ongoing viability and competitiveness of this transport mode.

Infrastructure investment and operation are key issues for the industry. In general, rail infrastructure is in need of upgrading and trains commonly move at sub-optimal speeds due to track inadequacies and interfacing infrastructure limitations. Such inefficiencies reveal themselves throughout the supply chain in the form of higher costs of assets (and the capital tied up in them); less efficient use of assets which ultimately leads to lower net returns to growers for their grain and potentially an increase in imports of grain food products if grain cannot be moved efficiently across the country.

There have been many reviews of infrastructure issues and needs in the Australian grains industry, largely as a result of infrastructure throughout Australia having been run down significantly over the past couple of decades. There are ongoing concerns about both the quality and ongoing viability of grain rail lines. Many lines are in need of significant capital investment if they are to continue to operate. The current environment is not one that provides incentive for private sector investment.

The limitations to efficient movement of grain by rail relate to both investment in track infrastructure, but also the supporting infrastructure and rolling stock. While the industry has the ability to move the current crop, it will not be able to meet the future task requirements as production increases with the existing infrastructure. The current rail infrastructure would not be able to handle a larger crop and there would be adverse social and economic consequences from increased use of road transport to meet this gap.

Current below rail infrastructure constraints are impeding investment by commercial organisations in efficient above rail infrastructure. Commercial organisations would invest in higher capacity wagons and larger trains if the supporting below rail infrastructure was in place leading to lower supply chain costs and therefore greater returns to growers.

Some of the specific issues that are limiting performance in the grains industry include:

- Load rates at country receival sites due to inadequate loading infrastructure and/or rail line/spur capacity at sites i.e. often low efficiency sites can only stable a small number of wagons at a site therefore requiring a small number of wagons to be dropped at a number of sites to fill a full grain consist
- Interfaces at port i.e. slow discharge rates due to trains needing to split wagon consists to discharge due to limited line capacity
- Inferior track i.e. light gauge, many lines are only rated at 19mt axle load which is limiting full utilisation of wagons, low limit bridges, lack of longer passing loops which would allow for longer train consists
- Some tracks are often not operational or have severe speed restrictions due to hot weather which is reducing train turnaround times
- Standardisation of rail network e.g. lack of an inland rail link connecting Victoria and Queensland; The additional need to have separate rail assets to operate in three states due to the different gauge configurations add significant cost to the industry in duplication of assets as well as reducing the ability to move assets from areas of low demand to areas of high demand
- Availability of pathways for grain particularly when grain trains are competing for access with other bulk commodities

Road transport is also very important to the grain freight task and needs to be considered in any plans for improving infrastructure for the grains industry. Reduced train speeds, weight restrictions, lack of rail track access and resultant low cycle times is pushing grain from rail to road. There needs to be a through analysis of the grains pathway to ensure that there is adequate investment in both the road and rail network. This mix may change in the various States and regions.

On road transport, current configuration restrictions are an issue as an example the increased use of A triple on selected routes for specific grain movements would provide significant grain transport efficiencies whilst reducing the number of truck movements.

The Government should urgently review infrastructure requirements for the grains industry and look to rationalise the network and prioritise investment to increase weight limits and add passing loops.

AGEA encourages the Government to put in place a policy framework that encourages private sector investment and to maintain and increase investment in critical infrastructure to support industry capability and increase efficiency.

Infrastructure (port) access

The objective of the 2008 Wheat Export Marketing Act (WEMA) was to remove the marketing monopoly, but not to create access monopolies.

WEMA was designed to increase the number of exporters and the port access provisions recognised that some regulatory oversight was necessary to ensure that those new entrants had access to the export supply chain so that they would be able to deliver competitive bids to growers. The WEMA established market oriented regulatory tools to ensure that the market operates efficiently.

The wheat (other grain) export monopoly influenced the way the storage, handling and transport system for grain evolved in Australia. This has seen the Australian system built primarily as a storage system, whereas in overseas countries the grain handling systems have been built for fast and efficient throughput of grain. Cost savings in other countries are shared between growers and end users in contestable markets, through competition to accumulate and market grain.

It is expected that competing upcountry facilities will be built and in fact are already occurring through both on farm storage and private facilities. The extent of this will vary from region to region based on crop and market characteristics and service /pricing of existing operators.

The 2008 Act was designed to create a competitive market for the wheat industry. The Act recognised that to achieve this that there needed to be contestability in service provision if the benefits of deregulation were to be delivered. According to the *Wheat Export Marketing Act 2008 Explanatory Memorandum*, the access test was intended to ensure that accredited wheat exporters that own, operate or control port terminal facilities provide “*fair and transparent access to their facilities to other accredited exporters*”. This aims to avoid regional monopolies unfairly controlling infrastructure necessary to export wheat in bulk quantities, to the detriment of other accredited exporters.

Access to port terminal services is essential to export bulk wheat from Australia. Australian exporters have no option in the short term but to use bulk handling company services where they wish to export bulk wheat. In the longer term, investment in their own facilities can be an option.

The access test has been effective in providing a framework for third party exporters to access critical port infrastructure. Despite this, the allocation process, cost and execution of shipping capacity remains an issue for exporters. For port terminal operators the access undertaking has not afforded the flexibility to negotiate commercial outcomes directly with exporters. Overall the allocation systems are not cost effective or efficient.

This has led to new investment occurring despite the fact that Australia has sufficient port capacity to meet the export task over a twelve month period and much of this investment has taken place to enable exporters to “front end” their programs when port capacity is at a premium.

The Wheat Export Amendment Bill makes provision for the industry to move from Undertakings to a mandatory Code of Conduct. This will recognise that there are new players in the industry and potentially provide greater flexibility. However, further new investment is possible if the regulatory settings do not deliver appropriate outcomes for both exporters and port terminal operators. There is a capacity for increased efficiency in port access through developing a set of rules for allocation of capacity that reduces the risk to all participants. Risk, wherever it occurs in the chain, will be factored into grower prices and thus, the Government has an incentive to work with the industry to ensure the Code has the appropriate balance between regulatory oversight and commercial flexibility.

The Government should work with the export sector and PTOs to ensure that the mandatory Code of Code Conduct for port access has the appropriate balance between regulatory oversight and commercial flexibility; and that it allows the industry to further evolve to a fully deregulated market when appropriate.

Foreign investment

Foreign investment has played an important role in the Australian food and agribusiness sector by supporting employment, economic growth and prosperity. Foreign investment inflows support the sector by potentially providing expanded access to cost effective capital and increasing productivity by attracting international know-how and competition.

Foreign investment has played an important role in enabling the grains sector to take advantage of growth opportunities where this has required investment in infrastructure and capital equipment. Foreign capital investment in the grains industry has, and is, supporting the Government's policy and stated objective of multiple exporters operating in the Australian market.

Concerns have been expressed in relation to foreign investment including:

- concern that revenue earned by companies investing in Australia will flow overseas - however, a proportion (typically the majority) is retained in the country through capital reinvestment, wages, indirect taxes and depreciation and company tax
- concern that some larger foreign companies may displace some smaller local companies – however, this will only occur if the foreign owned company is more competitive or offers a better product or service. Australian consumers will be made better off, just as if a more efficient domestic firm displaces a less efficient domestic firm. Counter to this, where investment by foreign parties helps to drive efficiencies in the industry and reduce costs, this is of benefit to growers and others in the value chain.

Furthermore, foreign capital investment can also play a role in relation to broader policy issues such as food security. Food security is increasing in global importance and the grains industry, in particular, has a key role to play as a supplier of food to world markets.

AGEA cautions that any policy shift to a more restrictive environment in relation to foreign investment may give rise to concerns about sovereign risk amongst foreign investors. This will influence future investment decisions that could impact on growth in the industry and may see capital allocated to other origins.

As a major global grain exporter, it is important that the Australian grain industry remains competitive and efficient. There is a need for certainty in the investment environment if investment is to continue and support the export business. Australia is competing with other destinations for investment dollars and thus, if Australia is perceived to have potential for lower and more risky returns, then this will lead to reduced opportunity to attract dollars at a time when the industry requires investment in supply chain infrastructure.

AGEA encourages the Government to consider the positive impacts on the local industry and broader policy interests such as food security in applying the foreign investment national test.

Access to markets

With around 70% of Australia's grain, oilseeds and pulses exported, market access is critical to the industry's viability. Australia has a number of natural advantages such as highly mechanised and large scale production, high quality and food safety standards and proximity to the fast-growing Asian economies which position it well to benefit from increased demand as a result of rising income levels.

The grains industry has established the Grains Industry Market Access Forum (GIMAF) to coordinate its input to Government on market access issues. By definition, market access matters are governmental in nature. Rules for import and export of goods are established by governments in every country in the world. They cover phytosanitary issues (for weed seeds, diseases and insect pests, etc), tariffs, food

safety issues (like MRLs). At times they may impose undue pressure on Australian exporters and/or at times are designed to protect the importing country industry. As such, it is critical that industry informs its government of its strategic priorities, so that government representatives can negotiate effectively for Australian industry outcomes.

GIMAF is a forum consisting of peak industry bodies which represent their members in working with Government to develop and implement effective market access plans for grains, seed and fodder. GIMAF oversees and directs market access activities under the Grains Industry Market Access Strategic Plan. It builds upon the strong market positioning of the grain industry and ensures that Australia proactively responds to changing market conditions. While GIMAF core activities are focused on direct marketplace issues, GIMAF also has a supporting role in providing input to the wider trade policy agenda.

AGEA encourages the Government to work with GIMAF to deliver better market access outcomes for the industry and ensure more efficient allocation and use of Government and industry resources.

Summary

- AGEA welcomes the opportunity to comment on the issues for consideration in developing an Agricultural Competitiveness White Paper. It supports this holistic approach to agricultural policy and the focus on the longer-term strategic issues that industry and Government need to address to ensure that the competitiveness of the grains sector is maintained and enhanced and future opportunities captured.
- This submission is provided by the export sector, however, many of the issues raised have flow on implications for producers and regional economies. By continuing to support and encourage greater efficiency in the grains industry the benefits will be felt by all parties in the chain from farm gate to end user.
- Deregulation has been successful: grain exports have been maintained, number of buyers has increased, more choice for growers, grower payments have occurred unimpeded, increased investment across the supply
- As a major global grain exporter, it is important that the Australian grain industry remains competitive and efficient
- There are opportunities to improve the competitiveness of the grains industry and the efficiency and cost competitiveness of the grains industry supply chain
- The industry supports a self regulation model and the industry has responded to the new environment with the expanded role of GTA in trade facilitation activities, the transition of wheat classification to WQA, the establishment of the Grains Industry Market Access Forum (GIMAF) and the establishment of the Australian Grains Industry Code of Practice
- There are a number of infrastructure access issues that need to be addresses to enable the industry to maximise performance.

A critical element is rail infrastructure. The limitations to efficient movement of grain by rail relate to both investment in track infrastructure, but also the supporting infrastructure and rolling stock. A key concern is that the industry has the ability to move the crop today, it will not be able to meet the future task requirements as production increases with the existing infrastructure. This submission highlights a number of specific issues that need to be addressed urgently.

Improving access to and the efficiency of port access arrangement is critical. The Government should work with the export sector and PTOs to ensure that the mandatory Code of Code Conduct for port access has the appropriate balance between regulatory oversight and commercial flexibility; and that it allows the industry to further evolve to a fully deregulated market when appropriate.

- There is no evidence of market failure in the quality management performance of the Australian industry. Any issues that arise can, are and should be dealt with through commercial mechanisms. Classification is an important activity underpinning Australia's quality reputation in global markets. A new funding mechanism needs to be found for WQA as a matter of urgency and this is being progressed by GTA and GRDC. The classification system also requires a one-off investment in 'uplift' funds. Education and communication are important to ensure that all parties through the value chain are informed and have confidence in the industry's quality management system. These activities could be enhanced and improved
- The grains industry plays a key role in supporting regional communities and the Government should support industries and companies that are key employers and contributors to regional communities. Maintaining and developing policies aimed at attracting people to regional communities is a key issue.
- The industry has a bright future driven by the growing demand for food and feed, in particular from Asia. A major challenge for the industry is the declining growth in productivity on farm. The Government continued support for the current R&D arrangements including GRDC and the matching R&D industry levy is critical to the industry's future. The Government's support of frameworks that will support industry's access to new technologies such as biotechnology in an appropriate and safe manner is also critical. The continuing real reduction in public sector extension and R&D resources and lagging productivity are critical issues for the grains industry
- AGEA welcomes the white paper initiative by the Government and supports the holistic and long term approach to policy development for this important sector. The grains industry is a very large component of the agricultural sector and a substantial contributor to the economy, trade flows and regions. The grains industry faces a number of significant challenges and AGEA encourages the Government to be proactive in working with the industry to address these. AGEA would welcome the opportunity to work with the Government on these key policy and investment issues and is happy to provide any additional information.