

17 April 2014

By email: Agricultural.Competitiveness@pmc.gov.au

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

Dear Minister,

Agricultural Competitiveness Issues Paper

GrainGrowers is Australia's only national, independent, member-based, grain producer organisation representing over 19,000 grain producers. We welcome the opportunity to comment on the Federal Government's Issues Paper as part of the process to develop a White Paper on the Competitiveness of the Agriculture Sector.

An opportunity lies before Australian agriculture to capitalise on the future growth of Asia. Countries in this geographic region are limited by access to land and water; and experiencing the burgeoning of the middle class in recent years - the size of this group currently stands at 500 million and is expected to sit at around 1.75 billion by 2020.

Australia stands uniquely poised to capture price premiums and develop niche grains products required by this new and booming sector of the world market.

In 2012-13, more than 80 per cent of Australian wheat was exported to international markets. This reliance on global trade means that domestic prices are heavily influenced by world demand and supply.

In this context then, **competitiveness for the Australian grains industry is being able to profitably maintain and grow our international presence over time.** This means being able to achieve higher output and higher prices at lower cost, without compromising natural resources or long term market presence.

In responding to the questions presented in the Agricultural Competitiveness White Paper, our focus is on the role of government, industry and individuals in being able to achieve higher output, higher prices and lower costs in ways that do not compromise our natural resources or long term market presence.

The critical issues examined in the context of competitiveness in the supply chain include:

- 1. Attracting private capital**
- 2. Future productivity and competitiveness**
- 3. Supply chain competitiveness**
- 4. Enhance access to high-value markets through differentiated products**
- 5. Internationalisation of the market**



We look forward to contributing to the green paper as part of the second step in the consultation process on the development of the White Paper.

Yours Sincerely

A handwritten signature in dark ink that reads "Michael Southan". The signature is fluid and cursive, written in a professional style.

Michael Southan
General Manager, Grower Interests

Introduction

There is certainly opportunity for growth of our exports in the international arena. Key drivers of this include:

- the growing world food requirements. Expectations are for the world's population to exceed 8 billion by 2025 (World Bank, 2014). Demand for grains will increase as part of this;
- changing international food consumption patterns. Increasing westernization of developing country palettes will drive increases in the demand for wheat and other grain flour;
- incomes are increasing in many populous countries so that food consumption patterns are changing. Increasing demand for protein changes the demand for grains, in some cases increasing it (e.g. grain finished beef and the shift from rice to wheat).

The drivers listed above present an opportunity for any grain producing nation. Drives which are specific to Australia are:

- that as incomes grow, consumers can become more discerning about their purchases. This presents an opportunity for Australia based on our high quality grains which are renowned; for example, Australia has found specific markets for WA noodle wheat in Japan and Korea
- the ability to generally deliver consistent grain exports. Australia has a diverse geographic production base and this diversity serves to dampen peaks and troughs in many cases; and
- being located close to many of the most rapidly growing markets.

Despite these potential advantages, Australia must still be:

- able to expand production;
- able to access markets;
- price competitive; and
- able to deliver to market specifications.

There are impediments to Australia being able to expand production and access markets, and there are threats to our ability to be price competitive and able to deliver to market specifications.

The **impediments** to the Australian industry being able to capitalise on opportunity going forward, include:

- **Our capacity to respond is limited;**
 - yield has been increasing only slowly with respect to wheat;
 - there are few production areas to which grains can profitably expand in the short term;
 - there is pressure on existing areas of grain production. Competition for land from mining and CSG and urban sprawl subdivisions continues and will increase with social resistance to intensification of agricultural production. Salination is also a significant issue along the

West Coast of Australia.

- **Our capacity to access markets faces constraints;**
 - A range of tariff and non-tariff barriers to trade exist, that:
 - Prevent Australian grains from being sold in the markets; and
 - Prevent Australian grains from being able to be sold *competitively* in some markets. (Includes competitors having preferential trade arrangements AND having subsidies in production and supply);
 - Gains are being made, however in many cases Australia is behind the progress being made by other nations (e.g. US)

Further, there are **threats** to the industry which may erode Australia's capacity to access opportunity in the international market. These factors increase the cost at which Australian grain can be delivered to customers and/or our ability to achieve quality premiums and include:

- *uncompetitive domestic storage, handling & transport.* Grain growers are world competitive in terms of costs of production to farm gate, but if it then costs more than competitors to get it to port/market, then the product is no longer priced competitively; and the run-down in government investment in road and rail infrastructure is also an element in becoming less competitive;
- *grain quality which undermines our reputation and lose customers.* Grain quality needs to meet the expectations of our customers, with a long-term focus in mind;
- *strong and coordinated international players which promote and represent their industry sales.* (Competing nations may, and some already do, benefit from the united national efforts in the international area e.g. US Wheat Associates promoting all US wheat irrespective of the seller;
- *reduced understanding of the industry.* In the absence of comprehensive understanding of the industry, including, capacity, stocks data, and industry structure, Australia is in a poor position to guide trade, R&D and policy;
- *price gouging.* Where prices for imported items such as chemicals and machinery are not reflective of price plus transfer costs, Australian producers will battle to be competitive.
- *land costs.* Land values do not reflect productive capacity in many instances. This is due to a raft of issues including: competition for land for short-term higher value output activities, the higher cost of debt re-servicing in the agriculture sector and the high costs of land transactions. Land as a resource is not 'mobile' which means the dynamics of it in an internationally competitive sector are different: this is a burden in grain production where

land is the key input.

- *decreased recognition of the value of our own produce in Australia.* Maintaining a strong domestic market is key to delivering competition for, and economies of scale in production, for the international market, and vice versa.
- *inadequate investment.* A corollary of these threats is that with reduced competitiveness/profitability, the industry's capacity to attract investment is diminished, which in turn reduces competitiveness.

Action to address all of these threats will be important in ensuring that Australian grain remains competitive in the international market and also therefore in our domestic market. However, unless Australia can make moves to reduce tariff and non-tariff trade barriers, produce more grain and produce it more efficiently, with maintained quality, Australia will not be able to take advantage of growing opportunity in the international market. Moreover, just maintaining our current markets at their current quantities and returns will become increasingly difficult.

1. Attracting private capital and the impact on competitiveness

Data from the Australian Bureau of Statistics (ABS) demonstrates that during the 2010–11 financial year, approximately a third of all agricultural businesses relied on either debt or equity finance to support their farm practice.¹ The main reason for seeking finance was to maintain short-term cash flow or liquidity (52%) or to protect the survival of the business (34%).²

Farm debt in Australia has also increased by almost 75% over the past decade, from \$40.3 billion in 2004 to an estimated \$70 billion in 2014. The portion of Australian rural debt sourced from banks has risen considerably in 2012 to 94% up from just 51% in 1965.³ Due to their dependence on natural biological and physical processes, farm businesses have long development and life cycles and access to finance is essential to farm profitability. Yet, returns of the business are variable due to natural factors such as climate and high price volatility in the terms of machinery, inputs and grain prices.⁴

Over the period 2000-2009 low interest rates inflated the level of farm debt as farmers were encouraged to borrow to buy more land and scale-up operations.⁵ Although the equity within the business was able to absorb the unpaid interest in the short-term, in the long term, the debt arrangement was untenable and created a situation where the business became highly vulnerable to external shocks such as prolonged drought; a severe change in market conditions; or a reduction in global commodity prices.

¹ Australian Bureau of Statistics (ABS), *Selected characteristics of Australian businesses, 2010–11: business finance*, cat. No. 8167.0, 2012, accessed 1 April 2014

² As above

³ Michael Santhanam-Martin, (2012) 'Will farm leasing change rural communities?', Rural Research Group Melbourne School of Land and Environment, University of Melbourne.

⁴ As above

⁵ Ross Kingwell, (2013) 'Issues and Options for Farm Financing in Australia', Australian Farm Institute.

In 2008-2009, after the global financial crisis, financial institutions conducted a reappraisal of the risks associated with investing in Australian agriculture. As a result, debt financing has decreased and agriculture is in significant need of access to new forms of finance.⁶

Critical issues

The predominance of the family-owned business model in agriculture has left Australians with limited ability to facilitate funding and investment by way of capital beyond the farm gate. Further, the structure and volatility of the Australian agriculture sector makes agriculture a relatively unattractive investment for managers of the limited savings pools that are available in Australia. Stock exchange listed businesses with predictable annual performance, rather than agriculture or farm business, is the preferred choice for investment by Australia's superannuation fund managers. Sourcing capital to fund growth and support farm turnover will be one of the major challenges for Australian agriculture to overcome in order to maximise predicted growth over the coming few decades and remain internationally competitive.

In ABARES studies, larger farms recorded higher rates of return and profitability than smaller farms.⁷ (Figure 3). These findings suggest that large operating scale is one of the factors driving productivity and profitability in broadacre agriculture.⁸ Facilitating the capacity of farmers to combine assets in a variety of ways is important to achieve scalability and encourage a transition to large scale farms. In terms of international competitiveness, the United States has achieved lower costs of production per unit, through a shift to large scale farm operations and an aggregate reduction in total input use; many of the global chemical, machinery and plant breeding companies are located in the United States.⁹

Policy context

Patient capital and investors will be required to manage short-term volatility and maintain a long-term view on potential gains to be made in the industry. Capital in the agricultural sector can be sourced in four ways:

- Facilitate **private domestic** investment in agriculture
- Develop **new business structures** for farm ownership and operation
- Encourage **private sector investment in the supply chain** from domestic or international investors
- **Create the policy setting to encourage foreign investment** while protecting Australia's national interest.

Even with the necessary farm investment structures in place, domestic private sources alone are unlikely to be enough for agriculture to reach its full potential. In a recent report by ANZ bank and Port Jackson partners, it is predicted an expected \$600 billion in additional capital will be needed, between now and 2050, to generate growth and profitability in Australian agriculture based on current capital valuations.¹⁰

⁶ As above.

⁷ Knopke, P. 1988, 'Measuring productivity change under different levels of assistance: the Australian dairy industry', Australian Journal of Agricultural Economics, vol. 32, nos 2 and 3, pp. 113–28.

⁸ As above.

⁹ Rural Industries Research & Development Corporation (RIRDC) (2013) Cross-Country Comparisons of Agricultural Productivity, An Australian Perspective, Publication No. 13/011

¹⁰ Report by Port Jackson Partners for ANZ Bank, Australia, (2012), 'Greener Pastures: The Global Soft Commodity Opportunity for Australia and New Zealand', ANZ Insight series, Issue 3.

With limited capital funding options available in the form of domestic savings funding sourced from overseas can be examined as a viable option. In recent years farmland prices have been rising globally due to an imbalance between supply and demand for land.¹¹ Rising demand for farmland has been associated with increasing interest by corporate investors and investment funds in production agriculture.¹² Yet the bulk of foreign direct investment funds are being captured by developing countries. The 2009 World Investment report estimated foreign direct investment inflows into businesses with primary agricultural production as a core activity of \$3.3 billion for 2005-2007 practically all of it in developing countries.¹³

Foreign investment funds can come from:

- **Global agribusiness operations** that seek farmland to expand the scale of operations or to integrate forward or backward to production of raw materials.
- **Financial entities** such as superannuation funds, or pension funds
- **Sovereign wealth funds (or state-owned companies)** from countries dealing with constraints on food supply due to land and water scarcity seek to augment food supplies by investing abroad.¹⁴

Industries in Australia which have enjoyed periods of growth, such as the transport industry, the energy industry and telecommunications and infrastructure industry, and the mining sector have all successfully captured foreign investment in order to grow.

Australia's farming industry has been limited by its structural landscape, the proliferation of smaller, family-run farms as well as the absence of consolidation. To maintain the competitiveness of the sector the Australian Government needs to develop alternative farming finance models such as leasing, corporate farming models (further developed than existing models), equity funding and the development of secondary finance markets to attract investment from domestic and foreign investors and capital market. More effective and efficient legal structures underpinning these business models are needed.

Australian cotton provides a good example of an industry that achieved rapid growth through a range of factors; foreign capital and global expertise was a vital factor which led to this success story. Australia is now one of the largest exporters of cotton in the world.¹⁵

Encouraging private sector investment in the supply chain from domestic or international investors will be discussed in detail at Section 3 Creating a competitive, global, grains export supply chain'.

¹¹ Savills (2011), 'When others are grabbing their land' The Economist.

¹² Farm Policy Journal , Vol. 8 No. 2, Winter Quarter 2011

¹³ United Nations (UN), New York, World Economic Situation and Prospects, 2012, www.un.org, accessed at 14 April 2014

¹⁴ Foreign investment in Australian agriculture – Parliament of ...

¹⁵ Report by Port Jackson Partners for ANZ Bank, Australia, (2012), 'Greener Pastures: The Global Soft Commodity Opportunity for Australia and New Zealand', ANZ Insight series, Issue 3.

In summary

- *Government policy needs to refocus on addressing the current shortfall in capital available to farmers and to create the necessary business structures, such as leasing, corporate farming models (further developed than existing models), equity funding and the development of secondary finance markets that will provide a credible means to draw investment from capital markets.*
- *Government should encourage foreign investment by not tightening up the controls around foreign direct investment (FDI) when securing Free Trade Agreements with our trade partners.*
- *Government policy needs to refocus on the financing of the agricultural sector and a deeper appreciation of sustainable debt within an enterprise. This is based on the economic earning potential of the business and not just on its current market value.*
- *Australian banks should develop a greater understanding of debt and a more layered understanding of the risk profile involved with farming in Australia.*

2. Future productivity and competitiveness

The challenge for sustainable growth in the Australian grain industry over coming decades will be achieved by productivity growth¹⁶. More than 70% of the gross value of agricultural production in 2010 could be attributed to past productivity growth, based on estimates that the average rate of productivity growth in Australian agriculture has been 2% per annum since 1953.¹⁷ It follows then, that research and development will play an important role in allowing farmers to create higher levels of income and sustainable business growth which captures the Federal Government's definition of 'competitiveness' within this current white paper process.

The Labour Government's *National Food Plan* sets a target of 45%¹⁸ increase in the value of food-related exports to Asia over the next ten years¹⁹ and identifies that Australia's agricultural productivity will need to grow by 30%²⁰ to achieve the targeted Asian export growth.²¹

Demand for agricultural products has already begun to outstrip supply reflecting growing constraints on supply of land and water. Yet, Australian agricultural productivity is slowing (*Figure 1*) with total factor productivity (TFP) lower than key wheat export competitors: the US and Canada. (*Figure 2*)

¹⁶ Productivity growth is one important aspect of farm financial performance, and reflects the gains coming from adopting new technologies and better farming methods. (ABARES, 'Grains Industry Productivity' 2000)

¹⁷ Sheng, Y, Gray, E, Mullen, J and Davidson, A, 2011a, Public investment in agricultural R&D and extension: an analysis of the static dynamic effects on Australian broadacre productivity. ABARES research report 11.7. Canberra.

¹⁸ *In real terms*

¹⁹ National Food Plan, Federal Government Initiative, www.daff.gov.au/nationalfoodplan.

²⁰ The federal government should review this target, set by the Labour Government, to determine whether it is attainable under the policy of the new government.

²¹ National Food Plan, Federal Government Initiative, www.daff.gov.au/nationalfoodplan.

Land productivity growth is believed to be at around 1.2%; while global agricultural demand is expected to grow between 1.1% and 2.6% over the coming decades.²² Predictions from the OECD indicate commodity prices could be 20% to 30% higher than current prices.

Cross-country comparisons of agricultural productivity determine changes in the relative competitiveness of Australian agriculture compared to its competitors. Therefore, productivity, along with market price for grain, is a major determinant of international competitiveness.

Strategic collaborative research and an examination of global competitors and their successful strategies would allow Australia to have greater leverage in R&D investments. The research behind much of the new technology developed for Australian grain growing come from an extensive network of government and private organisations. These include the GRDC, CSIRO, state departments responsible for agriculture, universities, and farm input firms.²³

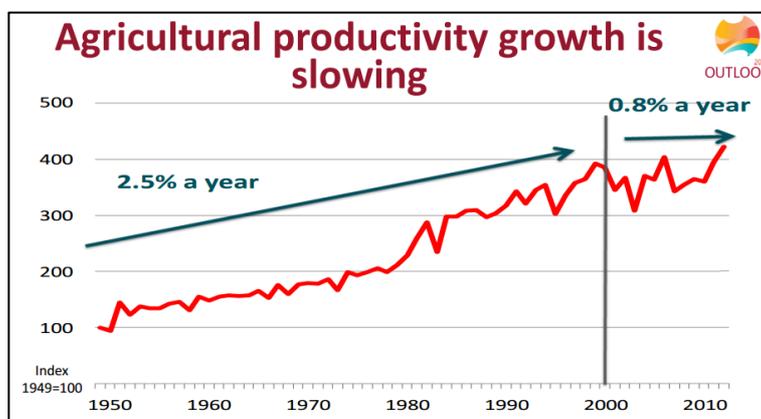


Figure 1: Agricultural productivity growth is slowing

Source: ABARES, Outlook 2014 Conference Presentation, Karen Schneider, (ABARES) Realising the opportunities'

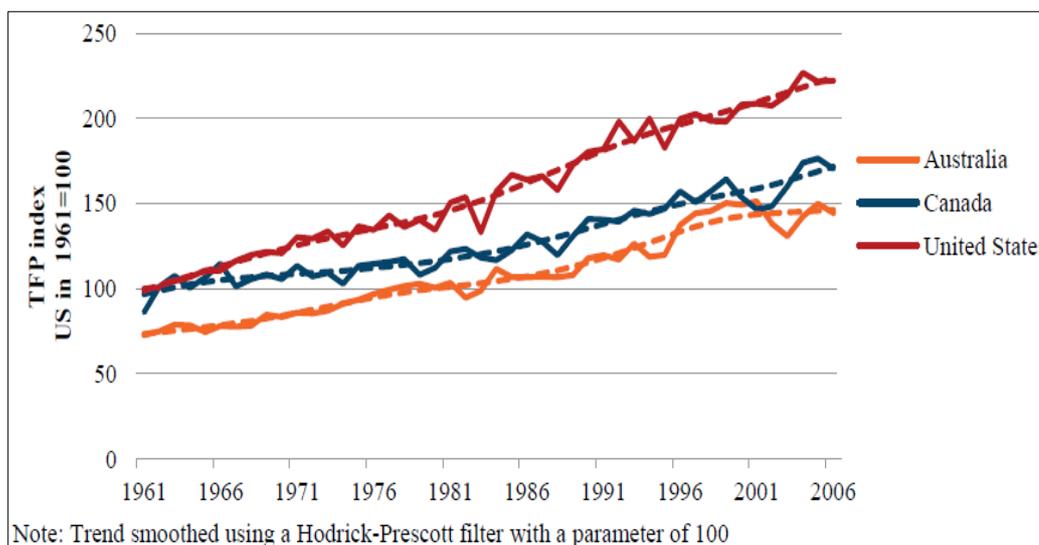


Figure 2: Agricultural Total Factor Productivity (TFP) levels, 1961–2006

Source: Rural Industries Research and Development Corporation (RIRDC), (2013) 'Cross-Country Comparisons of Agricultural Productivity - An Australian Perspective'.

²³ Australia Farm Institute, (March 2011) Private Sector Investment in Agricultural Research and Development (R&D) in Australia,

Recently there has been discussion by grower groups that the GRDC could focus effort to examine the option of private investment that will become an important driver of agricultural productivity as available public funding dries up.²⁴ If research and development is a critical part of the equation in terms of capitalising on future competitiveness of the Australian grain industry, research and development corporations, such as the Grains Research and Development Corporation (the GRDC) need to effectively apply funding to ensure the grains sector is able to maximise profitability on farm; and create the settings to capture and incentivise private investment funds in research.

In ABARES studies, larger farms recorded higher rates of return and profitability than smaller farms.²⁵ (See Figure 3) These findings suggest that large operating scale is one of the factors driving productivity and profitability in broadacre agriculture.²⁶

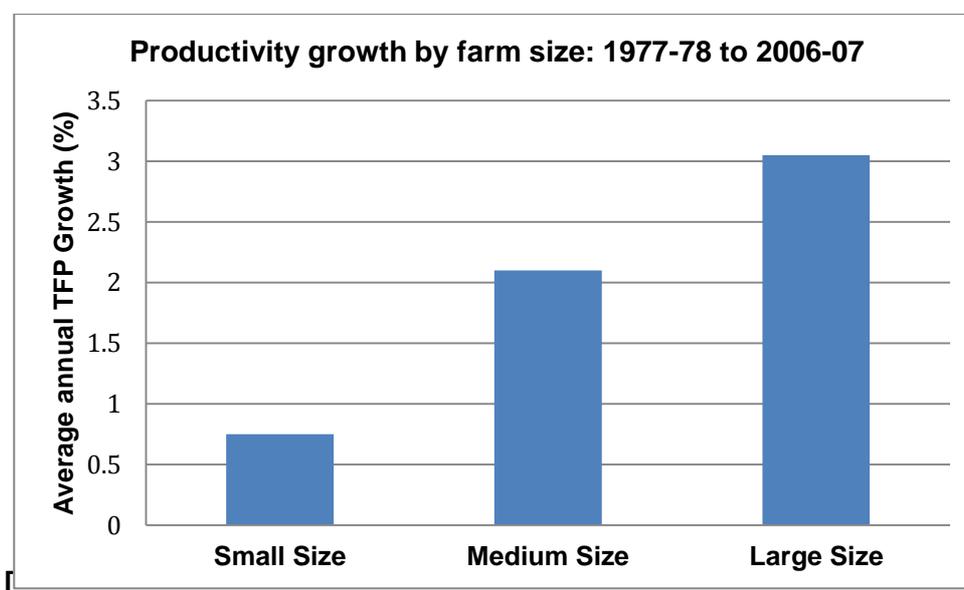


Figure 3: Productivity growth by farm size
Source: ABARES, (2011) *Reinvestigating the returns to scale*

Net gains in productivity can only be achieved by decreasing inputs and increasing outputs. Examples of increasing outputs would be increasing tolerance to abiotic factors such as drought. An example of decreasing inputs would be the scenario where Australia will need to increase the ability to maintain yield with sub-optimal water.

Genetic modification (GM) provides a type of technology that could provide step changes in yield and crop production which could provide the dual benefit of

²⁴ GrainGrowers National Policy Group, July 2013 meeting

²⁵ Sheng, Y, Mullen, J and Zhao, S, 2011b, A turning point in agricultural productivity: consideration of the causes. ABARES research report 11.4 for the Grains Research and Research and Development Corporation. Canberra.

²⁶ As above

decreasing inputs (such as chemical usage) while simultaneously significantly increasing output (higher volume of wheat from current size of land and/or greater value through targeted consumer benefits).

Acceptance of GM wheat domestically and also by our major trading partners in Asia comes with a significant challenge. Currently the government cost of testing to comply with GM regulation is so high that it is creating a significant barrier to entry; companies will only enter into the market if they know that there is a guarantee of capturing value from the sale of the crop when the research is at the development phase.

Policy conditions

The following initiatives have been identified as the critical policy directions required to increase private-sector agricultural research and development (R&D) investment in Australia:

- improvements in laws protecting the ownership of Intellectual Property (IP)
- the removal of restrictions on the development of genetic modified (GM) crops and the rationalisation of GM crop R&D approval processes
- the availability of the Australian R&D tax concession
- continuing and increasing investment by rural R&D corporations in agricultural R&D
- streamlining of chemical registration and approval processes to create greater certainty of outcomes and to ensure registration requirements are commensurate to risk.²⁷

The Australian Farm Institute completed a survey in 2010 to examine which firms may potentially invest in agricultural R&D in Australia. It was determined that the main factors influencing the R&D investment were:

- uniqueness of Australian Agricultural systems
- high rate of innovation adoption by Australian farmers
- interaction between public and private R&D activities.²⁸

In summary

- ***Focus the GRDC and other RDCs on the profitability principle: rate of growth of the dollar value of yield must be at a higher rate of increase than the rate of increase in the costs of inputs (costs such as, labour, machinery, fertiliser, and pesticides.***
- *Public sector RD&E organisations in North America and Europe (such as the USA Land Grant Universities and European Universities) appear to regularly work cooperatively with private sector organisations, to the mutual benefit of both.²⁹ Ensure that RDCs such as the GRDC have the appropriate staff and skills, and governance structure to attract and incentivise private investment.*

²⁷ Australia Farm Institute, (March 2011) Private Sector Investment in Agricultural Research and Development (R&D) in Australia.

²⁸As above

²⁹ Report by Port Jackson Partners for ANZ Bank, Australia, (2012), 'Greener Pastures: The Global Soft Commodity Opportunity for Australia and New Zealand', ANZ Insight series, Issue 3.

- *There is a need for ongoing communication between Asian markets (notably Japan and Korea) and the Australian Government and industry to ensure when Australian farmers produce GM wheat it will have market acceptance. Regulation of GM crops is a major barrier to the potential competitiveness of the Australian grains sector.*

3. Creating a competitive, global grains, export supply chain

Infrastructure

Excessive transport costs and delays, and inefficiencies in handling product via inter-modal transport of grain will ultimately be transmitted through price signals back into the price received by the producer. From a grain producer's perspective, grain supply chain costs depend on a range of factors including: proximity of a receival point to the point of harvest, its distance to port, the mode of grain transport and the grain handling, storage and loading charges throughout this supply chain.

In attempting to address some issues in the area of infrastructure and the export supply chain, it is important to note that it is not simple to calculate costs for agricultural transport in Australia – any attempts by industry experts to provide data on costs of transport have noted the inherent difficulty arising from the necessary methodology. This is largely due to the fact that transport is: intermodal, often involving two and sometimes three or four modes of transport from farm to port; and also due to the fact that costs are highly variable, with the farmer, the buyer, the processor, the shipper or the final purchaser responsible for some or all of the transport costs. Despite this inherent difficulty **AEGIC have been able to provide an estimate of supply chain costs along the wheat export supply chain at the equivalent to 30% of a grain producer's cost of production and often the single largest cost item for a grain producer.**³⁰ In general, supply chain costs in Australia for wheat, travelling 200 km from farm to port, are estimated to start at A\$60–75/t.³¹

Australia currently holds an infrastructure advantage into important Asian markets due to favourable sea freight costs, the issues with domestic infrastructure within the grains export supply chain are placing a cap on the ability of the industry to fully reap the reward of geographical proximity to the Asian market.

Australia's grain freight networks are localised, with each State effectively operating an individual network with a different mix of gauges. The standard gauge is used for interstate lines, and a narrow, standard or above gauge used for grain specific rail depending on State.³² In each State of Australia there is only one significant operator of above-rail services, this creates limited, or nil, competition within each State. This arrangement limits the ability to optimise above rail investment across narrow and standard gauge rolling stock.

³⁰ Tamara Stretch, Chris Carter, Ross Kingwell, (2014) The cost of Australia's bulk grain export supply chains, produced by Australian Export Grains and Innovation Centre (AEGIC)

³¹ As above

³² As above

The localisation of the network extends to below-rail maintenance policy and truck policy where trucks crossing borders may face different load restrictions and capacities. Train size in Australia is limited due to several constraints including the axle loading limits and varying speed ratings; this operational constraint also places pressure on Australia's ability to be internationally competitive.

The volume of wheat exported in Australia is variable due to Australia being one of the driest continents in the world with a range of abiotic factors to manage. This variability in volume, means that in Australia the export volume can range from anywhere between zero to 27% from the average in two out of three years.

The measure of this variability is particularly stark when compared to our international trading partners. For example, in Northern America the export volume is within 11% of the average in two out of every three years.³³ **As a result, excess capacity is built into the supply chain to enable Australia infrastructure to 'flex up and down' in response to production volumes. The uncertain freight volume makes planning more difficult and risky which is reflected in higher freight costs.**

This variation in supply also affects export volume at port in Australia and makes investment decisions by Australian port operators more difficult and risky. This risk is ultimately passed onto the grain producer along the supply chain through higher costs.

Ports

The Australian Consumer Competition Commission (ACCC) monitors the monopoly position of the bulk handlers to ensure it does not affect the ability of other accumulators to access port facilities. The shipping stem allocation systems in all regions are not currently designed to allow the grain traders to buy and sell slots on a secondary market. This increases risk to traders as they purchase shipping stem commitments with uncertainty regarding available grain and uncertainty around getting the grain from up country to port because of issues with rail infrastructure. This can impact on local grain prices once grain volumes are actualised, because traders increase their bids to ensure they have the volume available to fill commitments.

Without sufficient volume the traders face penalties in not utilising purchased shipping stem capacity. This increased risk and potential penalties can deter new grain marketers to enter, and thereby compete against other grain marketers, to buy Australian grain.³⁴

Integration of bulk handling companies

Consolidation of the supply chain, particularly by bulk handling companies, creates increased returns on their infrastructure through increased throughput and the cost savings associated with that increase. The increased volume of grains through these sites will increase the return on the asset for the bulk handling company. The consequence for the grain producer, however, may be longer trucking hauls from farm to receival point as sites are closed; and the potential for higher storage fees.

³³ Tamara Stretch, Chris Carter, Ross Kingwell, (2014) The cost of Australia's bulk grain export supply chains, produced by Australian Export Grains and Innovation Centre (AEGIC)

³⁴ As above, p 26

In terms of supply chain efficiency the critical points presented in GrainGrowers *State of the Industry 2011*³⁵ are provided below:

- **Scale economies** are important in reducing the unit cost of storing and handling grain.
- **Address supply chain competition through ensuring that growers (and international customers) have choice in storage, handling, mode of transport and sale of grain; it is ineffective to manage competition through regulation on large operators. This behaviour will act as a disincentive for global corporations to operate in the agriculture industry and Australia will therefore lose the potential for injection of investment capital in our supply chain. Australia will not be an attractive industry if multinational operations are unable to grow, expand and create economies of scale.**
- **Competition is the only effective way of ensuring that producers receive a 'fair share' of the margins** created by improvements in productivity.
- Producer organisations have an essential interest in monitoring and removing **barriers to entry and exit** in industries serving grain
- Government needs to **invest in infrastructure** to address inefficiencies around transport of grain from farm to port.

Recently, in the grains industry there has been discussion about the planned rationalisation of the operating grid used by bulk handling companies on the East Coast. Greater volumes of grain through these sites will increase the return on these assets. The consequences for affected grain producers will likely be longer trucking hauls from farm to receival point as sites are closed and possibly higher storage fees designed to encourage delivery to the larger, more efficient sites.

Australian Bureau of Statistics (ABS) demonstrates that on-farm storage capacity in WA alone was 2.35 million metric tonnes (MMT) and was forecast to grow to 4.2 MMT by 2012, or about 35% of average annual production³⁶. Across the East Coast on-farm storage capacity is also trending upwards with on farm storage across NSW, Victoria and Queensland estimated to be around 11 MMT or about 60% of average annual grain production.³⁷ If the increasing trend in on-farm storage continues or is accelerated by site consolidation then industry and government need to be prepared to manage the possible implications for road congestion, maintenance and road trauma costs and grain quality implications associated with more on-farm storage, such as shrink, contamination, infestation and grain pest chemical resistance.

In summary

- *Government needs to invest in infrastructure to address inefficiencies around transport of grain from farm to port.*

³⁵ GrainGrowers, State of the Industry Report 2011, www.graingrowers.com.au

³⁶ CBH, (2011), Group Submission to the Rural Affairs and Transport Committee Inquiry into Operational Issues Arising in the Export Grain Storage, Transport, Handling and Shipping Network in Australia (2011); also quoted in The Cost of Australia's Bulk Grain Export Supply Chains, (2014) Stretch, Carter, Kingwell.

³⁷ The Cost of Australia's Bulk Grain Export Supply Chains, (2014) Stretch, Carter, Kingwell.

- *Competition is the only effective way of ensuring that producers receive a 'fair share' of the margins created by improvements in productivity and freedom of entry and exit from the supply chain needs to be facilitated.*
- ***Government should review the situation in Australia where each State has only one operator for semi-freight above rail services and consider ways to incentivise multiple (private and public) operators in this space.***
- *Road freight has significant advantages over rail freight including scalability, ability to capture business from alternate industries in poor seasons, less regulation, and less rigidity in operation route.*
- *Supply chains can become more integrated to provide a higher level of service to attract price premiums.*
- *Supply chains could provide a more responsive speedy or reliable supply of products to end markets.*

4. Enhance access to high-value markets through differentiated products

Australia has historically increased global market access through free trade agreements; in coming decades this approach will need to be strengthened and matured to enable industry to recognise the depth of demand in key trading markets. Demand for safe and nutritious food is also expected to rise drastically across Asia in the next five years. Consumer spending is predicted to rise from US \$2.8 trillion in 2012 to US \$3.7 trillion.³⁸ ***For example, a key insight from the Economist Intelligence Unit's (EIU) recent report sponsored by NAB is that there are strong opportunities for Australian agribusinesses as key Asian markets are increasingly demanding high quality, safe and healthy food.***³⁹

Marketing of Australian agricultural industry produce in international markets, represents a widely acknowledged gap in terms of Australia's ability to be internationally competitive. Responding to market signals particularly around the demand for high quality, clean and green produce will be essential to maximise on growth opportunities. There is an opportunity for the Federal Government through the Australian Trade Commission (Austrade) to capture trade opportunities for Australian agriculture and food businesses by providing market development assistance, information and a range of market entry services particularly catered towards niche product development. Austrade also works closely with agricultural sector bodies on international marketing and promoting awareness of Australian produce. As a product of deregulation, Australian wheat is now left without any international coordinated effort at marketing. This is an area where AusTrade can provide assistance to enhance the competitiveness of industry.

³⁸ NAB Agribusiness View, 17 December 2013, *Asia's evolving food demand presents opportunities in Australia*, <http://business.nab.com.au/>.

³⁹ NAB Agribusiness View, As above

At the recent Australian Bureau of Agricultural and Resource Economics and Sciences (ABARES) 2014, Tassos Haniotis, from the European Commission conference provided analysis on the the reform of the European Union (EU) common agricultural policy and how the EU has enhanced competitiveness.

Critical factors identified were: enhanced market orientation, better functioning of the supply chain, and bridging the gap between knowledge and practice. (See Figure 4.)



Figure 4: How the European Union (EU) enhanced competitiveness

Source: ABARES Outlook Conference 2014:

Presentation by Tassos Haniotis, European Commission – The reform of the EU's common agricultural policy: drivers and challenges of change.

It is clear that in order for Australia to enhance its own competitiveness the strategies which need to be applied will align with this process.

Effectively achieving the target of enhanced market orientation will require a strategic approach to high potential markets to enable Australian grain to capitalise on future growth in demand. For example, New Zealand dairy sector has consistently increased production and productivity gains between 1979 and 2009. Over the same period Australian's production and productivity in the dairy sector has declined⁴⁰. Fonterra, (New Zealand-based dairy agribusiness) launched a 2012 "Group Strategy Refresh" to address strengthening global demand. This has led to a focus on the development of innovative dairy products and premium ingredients to meet the demands of Chinese consumers, and the country's increasing appetite for dairy products.

Key growth markets such as China are increasingly concerned about food security. This has led them to pursue investments in foreign farmland and agricultural companies. In recent years, tightening land ownership policies around the world, for example in Brazil and Argentina, have led China to shift its strategy to securing strategic off-take agreements. These agreements involve investments in farm, processing or logistical infrastructure in return for output, without the need for ownership.⁴¹ . Under an off-take agreement, an investor typically agrees to provide

⁴⁰ Report by Port Jackson Partners for ANZ Bank, Australia, (2012), 'Greener Pastures: The Global Soft Commodity Opportunity for Australia and New Zealand', ANZ Insight series, Issue 3. p56

⁴¹ As Above ANZ Insight series, Issue 3, p56

some upfront investment to the farmer in return for a share of the harvest. By linking companies directly to local farmers, there is an opportunity to shorten the supply chain, resulting in a fairer price for the producer, whilst at the same time the investor benefits through increased production and better traceability of products. The Australian mining sector is already the beneficiary of such agreements.

In summary

- *Grow volumes in higher value product segments in Australia's international markets; capture premium market opportunities through investing in differentiated products*
- *Build on Australian clean green safe image*
- *Government through AusTrade can gauge individual market needs and identify key export product categories such as dairy, wheat, oilseeds.*
- *Continue to accelerate the agreement of free trade and bilateral agreements between Australia and key trading partners, such as major strategic take-off agreements in return for capital investment.⁴²*

5. Internationalisation of the market

The ability of the Australian wheat industry to capitalise on future demand and remain competitive in the international market in coming decades will rely on appropriate market communication along the wheat quality export supply chain, and clear market signals between breeders, growers, handlers, marketers and traders.

Australian growers have adapted successfully to a deregulated environment where there is no longer a quality payment scale afforded to growers for protein, moisture content and screenings. Strengthened demand from Asia has resulted in a change to blending practices, logistical movement and varieties of wheat planted in Australia. Yet, despite the challenges of a deregulated market, wheat export volume from Australia has been steadily increasing year on year; the grains industry has remained internationally competitive.

GrainGrowers has recommended in its 2014 submission to the wheat taskforce that Australia's ability to consistently supply high-quality grain has proved to be a significant point of difference, particularly the ability to segregate based on the specifications of end users. **As such it is important for Australia's international competitiveness that we have in place a strong export supply chain with the appropriate market signals travelling between end-user markets and grain producers in Australia.**

Australia's global position as one of the dominant market players in terms of wheat exports, may be threatened in future decades by increasing volumes coming out of

⁴² As Above ANZ Insight series, Issue 3, p56

low-cost producing nations such as in the Black Sea region. The US Department of Agriculture already predicts these countries could overtake the USA within the next decade.⁴³ An example of this advantage is demonstrated through preferential treatment of Australian wheat under the ASEAN-Australian-New Zealand Free Trade Agreement.

Indonesian preference for the type of wheat grown in Australia makes Australia a natural option for trade with Indonesia. In order to maintain this demand, Australia needs to incorporate the price sensitivity and quality concerns of the Indonesian market into exported bulk wheat in order to fully capitalise on the relationship between Australia and Indonesia, as they may face challenges from cheaper wheat origins in the future.⁴⁴

In summary

- *A specialised grains trade expert to comment on trade efficiencies for the industry would assist government. This will provide better coordination between DFAT and the grain industry representatives.*
- *Encouraging the development of competitive port operations (new ports) to facilitate trade and the movement of grains from domestic market to international market.*

⁴³ Alison Watkins, (2012) Realising Australia's Grain Opportunity, presentation.

⁴⁴ Rabobank, 2013, 'Australian Grains – Competitive Strains'.