

Chapter 3

Overview of the Australian wheat industry

Australia's bulk wheat export market

3.1 The Australian wheat industry is heavily exports focused, with around 60–70 per cent of national production per annum being exported to over 50 countries. In 2010-11, 18.5 million tonnes of wheat, from an annual national production of 27.9 million tonnes, was exported to 52 countries for a value of \$5.9 billion.¹ In the same financial year, wheat ranked eighth highest on the top ten list of Australian exports in terms of value (see Figure 1 below).²

3.2 The dominant grades of wheat exported are Australian Premium White and Australian Standard White, which are commonly used by millers to make noodles, Middle Eastern or European style bread, or Chinese steamed bread. In 2010-11, the two grades of wheat accounted for over 55 per cent of all bulk wheat exported.³

3.3 Asian countries form the primary export market for Australian wheat. In 2010-11, the top five wheat export destinations of Indonesia, Vietnam, South Korea, Japan and Iraq collectively accounted for 69.4 per cent of Australian bulk wheat exports (see Figure 2 below).⁴ From 1 October 2011 to 31 March 2012, China and the Philippines replaced Japan and Iraq in the top five wheat export destinations.⁵

3.4 Historically, on average, Australia has been one of the top five major wheat exporting countries. In 2010-11, Australia was the third largest wheat exporting nation, behind the United States and the European Union.⁶

1 Wheat Exports Australia, *Report for Growers 2010–11*, p. 4, www.wea.gov.au/ReportForGrowers.php, accessed 24 May 2012. Of the 18.5 million tonnes exported, 16.3 million tonnes were exported in bulk to 36 countries.

2 Department of Foreign Affairs and Trade, *Composition of Trade Australia 2010–11*, p. 27, www.dfat.gov.au/publications/stats-pubs/cot-fy-2010-11.pdf, accessed 24 May 2012.

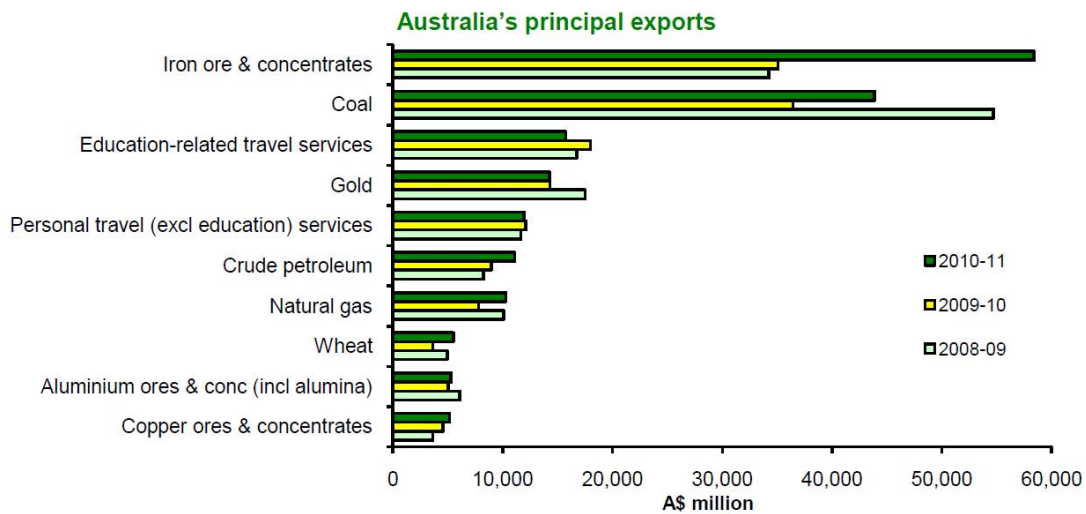
3 Wheat Exports Australia, *Report for Growers 2010–11*, p. 6.

4 Wheat Exports Australia, *Report for Growers 2010–11*, p. 5.

5 Wheat Exports Australia, *Submission 12*, p. 2.

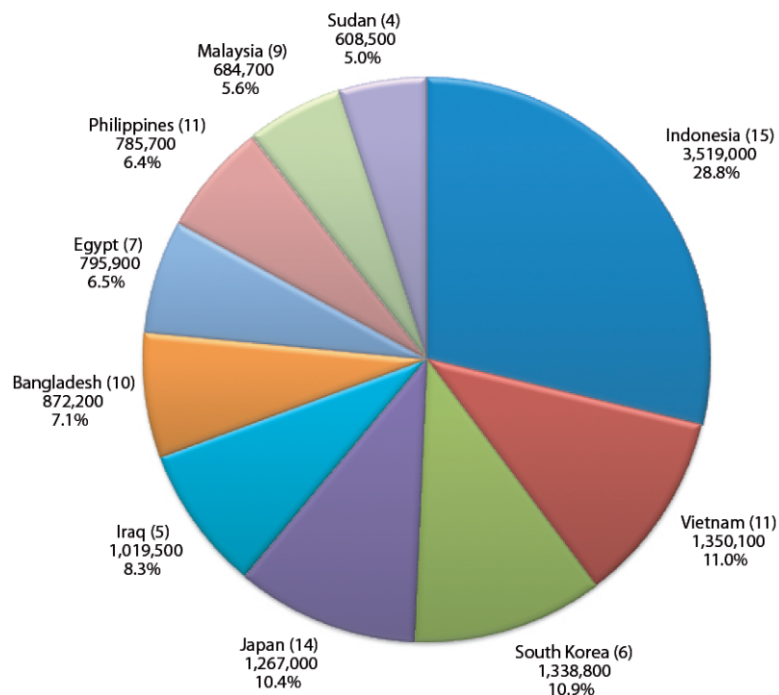
6 Wheat Exports Australia, *Report for Growers 2010–11*, p. 20.

Figure 1—Australia's top ten principal exports⁷



Based on ABS trade data on the DFAT STARS database and ABS catalogue 5302.0.

Figure 2—Top ten export markets for Australian bulk wheat 2010-11 (tonnage and proportion)⁸



Note 1: Figures in brackets represent the number of accredited exporters that shipped to that country
 Note 2: Figures under each country are the tonnages imported
 Note 3: Percentages represent the proportion of the total 12.2 million tonnes shipped to the top 10 countries

Source: ABARES and WEA analysis

7 Department of Foreign Affairs and Trade, *Composition of Trade Australia 2010–11*, p. 3.
 8 Wheat Exports Australia, *Report for Growers 2010–11*, p. 5.

3.5 The first of three phases of deregulation of the bulk wheat export market commenced on 30 June 2008, when the *Wheat Export Marketing Act 2008* (the Act) and the *Wheat Export Marketing (Repeal and Consequential Amendments) Act 2008* commenced. Prior to this date, the domestic market for wheat had already been deregulated in 1989, and the non-bulk export market was deregulated in 2007.⁹

3.6 In accordance with the Act, a review was undertaken by the Productivity Commission in 2010, which subsequently recommended that further deregulation should occur, including, among other things:

- abolition of the accreditation Scheme; should be abolished;
- repeal of the Wheat Exports Charge (WEC); and
- dissolution of Wheat Exports Australia (WEA).¹⁰

3.7 In response to the Productivity Commission's recommendations, the Australian Government commenced the second phase of deregulation of the wheat market on 1 October 2011. The second phase of deregulation involved the imposition of a 'lighter-touch' accreditation scheme for exporters of Australian wheat. The third and final phase of deregulation of the wheat market will be implemented with the passage of this bill, which will implement the Productivity Commission's three recommendations above.

3.8 Under current arrangements, WEA is the regulator for the wheat export industry and is responsible for accrediting fit and proper exporters of bulk wheat, monitoring those exporters, and ensuring continuous disclosure of the shipping stem by port terminal service. WEA does not have a role in storage and handling, transport, marketing, publishing industry statistics (other than through its Annual Report and its annual Report for Growers), setting receival standards or classifying wheat varieties.¹¹

3.9 Complementary to WEA's role, two organisations provide industry assistance on the quality of Australian wheat classes and wheat receival standards:

- Wheat Quality Australia (WQA) is a non-for-profit company with primary responsibility for national wheat variety classification and quality reputation of Australian wheat classes;¹² and

9 The Allen Consulting Group, *Competition in the export grain supply chain: access and information asymmetries, Report to AWB Limited*, March 2008, p. 19; and Productivity Commission, *Wheat Export Marketing Arrangements*, Productivity Commission Inquiry Report No. 51, July 2010, p. 44.

10 Productivity Commission, *Wheat Export Marketing Arrangements*, Productivity Commission Inquiry Report No. 51, July 2010, p. 2.

11 Wheat Exports Australia, *Submission 12*, p. 2.

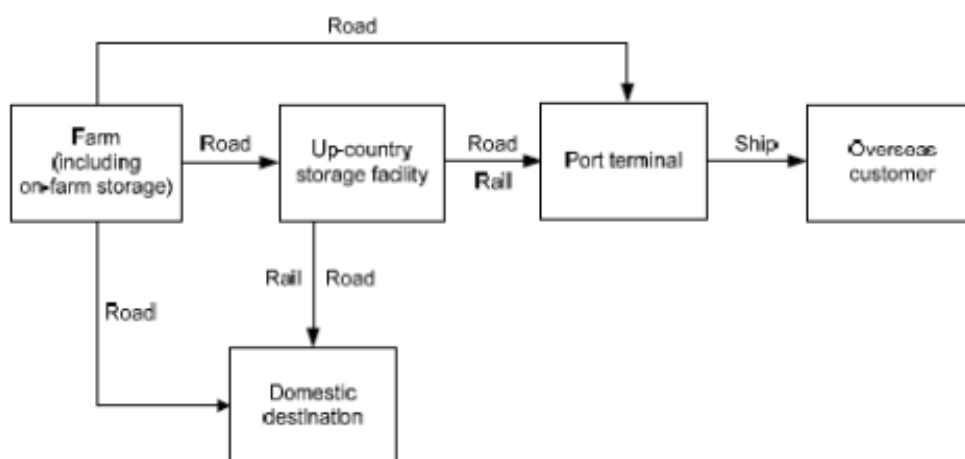
12 Wheat Quality Australia, About Us, www.wheatclassificationcouncil.com.au/info/wheatqualityaustralia/aboutus#role, accessed 24 May 2012.

- Grain Trade Australia (GTA) is an industry body with primary responsibility for setting harmonised trading rules and contracts, including receival standards concerning a grain's physical characteristics, protein content, moisture and related factors.¹³

The supply chain¹⁴

3.10 The majority of Australia's export wheat is supplied through the bulk grain handling system. The network is comprised of 'up-country' receival facilities connected by rail and road transport to population centres and port facilities (see Figure 3 below).¹⁵

Figure 3—Bulk grain supply chain¹⁶



3.11 There are three major regionally based bulk handling companies:

- GrainCorp Operations Limited in New South Wales, Victoria and Queensland;
- Viterro Limited in South Australia; and
- CBH Group in Western Australia.

3.12 In addition, there are two large independent bulk handling companies: Australian Wheat Board Limited (AWB) has operations in South Australia, New

13 Grain Trade Australia, About Grain Trade Australia, www.graintrade.org.au/About_GTA, accessed 31 May 2012.

14 Parts of this section are drawn from the Senate Regional and Rural Affairs and Transport Reference Committee's report on Operational Issues in Export Grain Networks, April 2012, pp 9–12.

15 Productivity Commission, *Wheat Export Marketing Arrangements*, Productivity Commission Inquiry Report No. 51, July 2010, p. 66.

16 Productivity Commission, *Wheat Export Marketing Arrangements*, Productivity Commission Inquiry Report No. 51, July 2010, p. 253–4.

South Wales and Queensland; and Australian Bulk Alliance Pty Ltd (ABA), a wholly owned subsidiary of Emerald Group Australia Pty Ltd, has operations in New South Wales and Victoria. Finally, a number of smaller independent storage and handling facilities complement the larger bulk handlers.¹⁷

3.13 The major bulk handling companies are often vertically integrated, meaning that they tend to operate services along the entire supply chain from bulk receival sites to ownership of export cargo ships. A number of other changes are occurring in the supply chain, due to deregulation, privatisation and competition in both the transport and storage of grain.¹⁸

3.14 Once wheat is harvested it can be stored on farm, delivered to one of about 570 up-country storage facilities by road, or delivered directly to port by road. There is currently a wider range of storage services in the eastern states and parts of South Australia than in Western Australia.¹⁹

3.15 The storage of grain on farms can occur in a number of ways. It can be stored in bags holding between 200 and 220 tonnes of wheat, and filled and emptied using specialised machinery. This method, however, is more common for the domestic wheat market. Wheat can also be stored in sealed grain silos, or sheds or bunkers.²⁰

3.16 From up-country receival facilities export grain is transported either by road or rail, with approximately 75 per cent of this occurring by rail with variability in use according to state. Over time the share of wheat transported by road has increased and the share transported by rail has decreased. The Productivity Commission cites a number of reasons for this change including that:

- the cost efficiency of road compared to rail has improved;
- the flexibility and efficiency of road freight has improved, whereas this is not the case for rail; and
- deregulation of the wheat market has changed the dynamics of the supply chain due to diversified grain requirements, competition amongst exporters, rationalisation and relocation of up-country storage, and changes in the basis of pricing – all of which have favoured road over rail.²¹

17 Productivity Commission, *Wheat Export Marketing Arrangements*, Productivity Commission Inquiry Report No. 51, July 2010, pp 66–7.

18 Productivity Commission, *Wheat Export Marketing Arrangements*, Productivity Commission Inquiry Report No. 51, July 2010, pp 66–7.

19 Productivity Commission, *Wheat Export Marketing Arrangements*, Productivity Commission Inquiry Report No. 51, July 2010, pp 67, 256 and 263.

20 Productivity Commission, *Wheat Export Marketing Arrangements*, Productivity Commission Inquiry Report No. 51, July 2010, pp 255–6.

21 Productivity Commission, *Wheat Export Marketing Arrangements*, Productivity Commission Inquiry Report No. 51, July 2010, pp 263–4.

3.17 All but three of Australia's 19 active export grain terminals in Australia are owned and/or operated by the three major bulk handlers.²² The three exceptions are:

- Melbourne Port Terminals, which is operated by ABA;
- Queensland Bulk Terminals, a wholly owned subsidiary of Wilmar Gaviion Pty Ltd; and
- a joint venture between Louis Dreyfus Commodities Pty Ltd and Mountain Industries Pty Ltd at Kooragang in Newcastle which established an accumulation and storage facility coupled with a non-exclusive arrangement with an independent ship loader.²³

3.18 In relation to containers used for export, there are three main types of fit for purpose cargo vessels used to export Australian wheat:

- Handysize (deadweight of 25 000 to 43 000 tonnes);
- Handymax (deadweight of 43 000 to 55 000 tonnes); and
- Panamax (deadweight of 65 000 to 80 000 tonnes).²⁴

3.19 In addition, the larger Capesize vessels, with a deadweight of 80 000 to 160 000 tonnes, are occasionally used but are subject to port facility restrictions.²⁵

3.20 The following chapter outlines the key issues arising from the bill and the implications for the Australian wheat industry.

22 Wheat Exports Australia, *Report for Growers 2010/2011*, p. 12; and Productivity Commission, *Wheat Export Marketing Arrangements*, Productivity Commission Inquiry Report No. 51, July 2010, p. 66.

23 Wheat Exports Australia, *Report for Growers 2010/2011*, p. 12.

24 Wheat Exports Australia, *Report for Growers 2010/2011*, p. 25.

25 Wheat Exports Australia, *Report for Growers 2010/2011*, p. 25.