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Joint Standing Committee on Trade and Investment Growth
PO Box 6021
Parliament House
CANBERRA, ACT 2600

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To whom it may concern

Co-operative Bulk Handling Limited (**CBH**) refers to the Joint Standing Committee on Trade and Investment Growth's inquiry into whether there is a need for Australia to diversify its trade markets and foreign investment profile.

CBH wishes to raise the following points for consideration in response to the inquiry. CBH has focussed its responses in this submission on the trade issues that we are familiar with and therefore not responded to questions posed by the Committee on foreign investment.

Background

CBH is Australia's largest co-operative and a leader in the Australian grain industry.

Established in 1933, CBH operates a large and complex supply chain in regional WA comprising road, rail and port infrastructure and approximately 150 upcountry receival points.

Owned and controlled by nearly 4,000 Western Australian grain growers, CBH is also Australia's largest exporter of grain, with a market share of approximately 30 per cent of aggregated bulk Australian grain exports.

In a typical year Deloitte Access Economics calculated that CBH and its grower members contribute almost \$3.5 billion in gross value-add to the WA economy.

Australian reliance on any one market for exports

Australia's grain exporters, including CBH, export grain to over 250 customers in over 30 countries, however, are heavily reliant on a few key markets, for one or two specific grain types.

Examples where Australian grain exporters are reliant on a single market can be found in malting and feed barley to China, and noodle wheat to Japan.

Looking at the noodle wheat industry first, the industry has been working for many years to manage its risk by diversification into the Korean market, which is a non-regulated market versus the traditional noodle wheat market of Japan, which is a Government regulated, least cost, tender system.

Whilst white salted (udon) noodle wheat supply to Japan has been dominated by Western Australian production for decades, there are other global suppliers, such as Canada and the United States, who are looking to take some of this market share from Western Australia and the industry is conscious of this threat.

More recently, the WA noodle wheat industry has been providing noodle wheat into Indonesia for some niche products to further diversify its geographic market risk. The combined result of this is that the noodle wheat industry is now more diversified than it has been historically, to the benefit of the WA noodle wheat industry and grower farm gate values (depending on supply and demand), however a heavy reliance on Japan remains.

Looking next at barley, China is Australia's key market for malting barley. In 2018, more than 80% of WA's malting barley was being sold to China as it was the premium paying market. In addition, 70% of Western Australia feed barley was being sold into the Chinese animal feed sector.

The December 2018 anti-dumping claim and countervailing duty (CVD) claim against Australia, by MOFCOM and China, highlights this dependency risk. As demand for malting and feed barley from China stopped, following this announcement, the price for malting and feed barley fell significantly as exporters redirected supplies to lower paying markets.

In the 2019/20 season these alternate trade flows, and the resultant negative price impact to grower farm gate returns, have been somewhat masked by drought demand in Eastern Australia for Western Australian feed barley. As we move into the 2020/21 season and beyond though the price impact will be more severe as more product needs to be placed in alternate export destinations.

To reiterate, the claim by China against the Australian barley industry has undoubtedly resulted in a decrease in the demand for Australian malting barley and a virtual end to the demand for feed barley from Australia, until recently, as the Chinese Government have either refused to issue import permits on the buy side in China, or buyers fear imposition of a tariff post purchase making the purchase uncompetitive.

The advantages and disadvantages to an over reliance on any one market

Using the malting and feed barley example above, the advantage of the reliance on China for malting barley is that China has high volume demand for malting and feed barley in order to satisfy the demand for beer and feed in China given its large population, demographics, and increasing demand for beer. Given this China has paid price premiums to secure this volume away from other importing countries and encourage further increased production globally.

Australian exporters have a long history of supplying malting barley to the Chinese malting and brewing industry and the Chinese market is familiar with our malting barley varieties and the performance of our malting barley in the malting and brewing industries.

Australian malting barley is substitutable in China. China also buys barley for malting and brewing from Canada, France, and more recently, the Black Sea region.

The disadvantage of this reliance is when there is a logistics bottleneck, disruption to demand or political legal change, the flow on effects felt by industry are immediate and significant. The resulting decreased premiums for malting barley above feed barley, and lower overall farmgate returns to growers for both malting barley and feed barley experienced since the end of 2018, in response to the anti-dumping and CVD claim by China against the Australian barley industry and Australian Government are the clear example of this.

The impact of global crises including trade disputes and political disputes on Australia's relationship with countries we are reliant upon for trade and investment purposes;

Non-Tariff Measures (NTM's) are the priority trade policy issue for the grains industry. Market access is critical for the Australian grain industry, with more than 75% of Australia's grain production exported annually, and over 90% in Western Australia.

NTM's describe government regulatory tools and policy measures, other than customs tariffs, that have the potential to affect international trade. Many governments apply NTMs to achieve legitimate policy objectives, however, even legitimate measures can have adverse trade consequences. Where NTM's distort trade or favour domestic industries at the expense of international competition, these measures represent barriers to trade for Australian exporters.

A recent example of an NTM that the Australian grains industry has encountered is the introduction by India of a list of weed seeds that are prohibited on import. That is, a nil tolerance, for the import of grain from Australia. The list of weed seeds includes weeds that are present in

India, highlighting that this is not a phytosanitary issue, but an NTM. The Department of Agriculture, Water and Environment (DAWE) is currently assisting industry in seeking to have this list amended or a tolerance allowed in the future.

India presents some good opportunity for the export of particular grain types however this opportunity cannot be realised with such a policy in place. Longer term India is a market of high strategic importance to Australia and the opportunity to develop this market is also being impacted today.

Domestic support policies by some of our key importing countries are creating adverse consequences for the grain trade through restricted access, changeable rules, and the cost of risk mitigation by the grain trade. Government and industry need to collaborate to address the challenges of NTM's.

DAWE and the Australian grains industry, facilitated by Grain Trade Australia (**GTA**), undertook a joint initiative to produce a report on the NTM's impacting the Australian grains industry. CBH is a member of the grains NTM project steering committee that produced the grains NTM project report.

NTM's are increasing and are the priority trade policy issue for the grains industry. The market access challenge is ongoing and requires Government and industry to work together to address current and future challenges.

The impact of bilateral trade agreements on Australia's exports and whether they contribute to concentrated export markets;

Bilateral trade agreements are of benefit to the Australian grains industry. Free Trade Agreement's (FTA) and other co-operation agreements with our international trading partners assist in diversifying Australia's agricultural export markets and choice for sellers of grain.

Western Australian growers, through CBH, are direct beneficiaries of the FTA's that the Australian Government can negotiate with our export buyers through their respective Governments'.

One recent example worth mentioning is the Indonesia Australia Comprehensive Economic Partnership Agreement (IA-CEPA) that, once fully ratified, will enable duty free access for 500,000tonnes of Australian feed grain into the Indonesian market, and an annual increase of 5% per year thereafter.

Another favourable example is the tariff advantage Australia enjoys in servicing the Philippine wheat market negotiated under TPP protocols. This has seen rapid expansion and development of this market for Australian feed wheat exporters, and may lead to an increase in milling wheat sales into the future.

The diversification of feed grain markets for sellers of Australian feed wheat, feed barley and sorghum will directly benefit Australian grain growers.

Industry and government preparations to diversify its trading partners and secure new markets for Australia's exports

The Australian Export Grains Innovation Centre (**AEGIC**) based in Perth, WA, is collaborating with the grains industry to identify key projects that will help diversify our trading partners and key export destinations for specific grains from Australia.

AEGIC is jointly funded by the WA State Government Department of Primary Industry and Regional Development (DPIRD) and the Commonwealth Grains Research & Development Corporation (GRDC).

One of the many AEGIC projects that is directly benefitting the WA grains industry is their project engaging with international feed grain buyers to understand the benefits of using Australian grains in livestock feed rations, supporting the demand for Australian feed grains.

AEGIC has commissioned livestock nutrition experts to prepare technical information to help customers understand the value in using Australian grain in feed rations for a range of markets, including Indonesia, Thailand and China, among others.

It is the technical exchange between AEGIC and the International feed grain buyers that provides long term benefit to the entire Australian grain industry and is unlikely to have significant investment from individual Australian grain exporters.

The continued support and funding of AEGIC in assisting industry to secure new markets is vital to the continued success of the Australian grains industry.

If you require further information from CBH please contact David Paton, Government and Industry Relations Manager at [REDACTED]

Yours sincerely

For: Co-operative Bulk Handling Limited



Ms. Brianna Peake
GENERAL MANAGER, GROWER AND EXTERNAL RELATIONS