

Grains industry

Introduction

- 4.1 The grains industry pursues value-adding opportunities where this meets customer needs. This chapter reviews the status of the grains industry and the opportunities and impediments to value-adding.
- 4.2 The examination addresses the grains industry in general, with particular focus on the wheat industry reflecting the nature of the evidence received and the size of the wheat industry. The outlook for world wheat trade is promising in the short to medium term, and in the longer term it is expected that world population growth will drive demand for grains such as wheat.
- 4.3 Australia's position in world wheat trade is examined together with its responses for meeting demand and producing specialised wheat varieties in order to meet changing consumer needs. Government policies and programs that influence marketing and value-adding opportunities are reviewed.

Production and export status

- 4.4 The bulk of grain production occurs in central Queensland, New South Wales, Victoria, South Australia and through the southern part of Western Australia. Between 1995 and 2000 the average annual grain production was 37.2 million tonnes. Western Australia was the largest producer with an average during the same period of 13.19 million

tonnes and New South Wales was next with an average annual production of 10.72 million tonnes.¹

- 4.5 The average area sown to grains is about 19.72 million hectares. Department of Agriculture, Fisheries and Forestry - Australia (AFFA) reports that wheat 'is by far the biggest grain crop produced in Australia both in terms of grain produced and value'.² The average annual production during the past five years was 21 159 kt at a value of \$4 236 million. The next largest grain crop is barley with an average of 5 792 kt produced at an average gross value of \$1 066 million.³
- 4.6 Approximately 75 per cent, or about 15 800kt, of wheat produced is exported in raw form. AFFA commented that the 'large amount of wheat being exported allows wheat to take its place as the largest crop export making up approximately 65 per cent of the total value of crop exports'.⁴
- 4.7 The Australian Wheat Board Limited (AWB) reported that in the ten years to 2000, world wheat trade has remained fairly static at about 100 million tonnes. During this same period, Australia's wheat production has grown from around 12-14 million tonnes per annum to about 22-24 million tonnes per annum. The AWB stated:
- ...the export task has increased from around 10 million tonnes per annum to around 18 million tonnes per annum. This additional tonnage has been placed into a static market, showing a strong increase in Australia's market share. This success has come through branding and value-adding to promote the quality and reliability of Australian wheat and AWB.⁵
- 4.8 The AWB suggested that the international wheat market 'is the most competitive food commodity market in the world' with a total production of about 600 million tonnes and average annual trade of about 100 million tonnes. The five major wheat exporting countries and their export volumes in 2000 were:
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|--------------------|-------------------|
| ■ United States | 35 million tonnes |
| ■ Canada | 26 million tonnes |
| ■ Australia | 18 million tonnes |

1 AFFA, submission no. 34.2, p. 34.

2 *ibid.*, p. 34.

3 *ibid.*, p. 34.

4 *ibid.*, p. 34.

5 AWB, submission no. 50. p. 1.

- European Union 14 million tonnes
- Argentina 10 million tonnes.⁶

Single desk exporting

- 4.9 Wheat exporting and marketing is operated through single desk arrangements. The AWB is the sole exporting and marketing authority. The single desk arrangements have been subject to review—the most recent was by the National Competition Council (NCC) in 2000. In response to the results of this review, the Minister for Agriculture, Fisheries and Forestry, the Hon Warren Truss, MP, stated that the ‘single desk arrangements for exporting wheat, held by the AWB, will remain, but that improvements will be made to the consent system operated by the Wheat Export Authority (WEA)’.⁷ The WEA is a statutory authority that controls the export of wheat through the issue of permits. It is independent and separate from the holder of the single desk, the AWB.⁸
- 4.10 In addition, the Minister indicated that the WEA will have until the end of 2004 to assess the performance of the AWB with regard to its use of the wheat export rights. The Minister specified that the WEA will be asked to ‘develop rigorous and transparent performance indicators to ensure its review accurately measures the benefits to industry and the wider community’.⁹
- 4.11 Evidence to the inquiry about the operation of the single desk was received during the NCC review and prior to the Minister’s confirmation that the arrangements would remain. The AWB was consistent in its support for the continuation of the single desk commenting that the informational advantages, and the economies of scope and scale attributable to a mechanism like the single desk, ‘are very important in ensuring that Australian growers continue to have a competitive advantage in the market’.¹⁰

6 Mr Andrew McConville, AWB, transcript of evidence, pp. 236-37.

7 Minister for Agriculture, Fisheries and Forestry, the Hon Warren Truss, MP, Media Release, *Wheat Single Desk to Remain*, 4 April 2001.

8 AFFA, submission no. 34.2, p. 16.

9 Minister for Agriculture, Fisheries and Forestry, the Hon Warren Truss, MP, Media Release, *Wheat Single Desk to Remain*, 4 April 2001.

10 Mr Andrew McConville, AWB, transcript of evidence, p. 237.

- 4.12 AFFA reported that while the focus of the AWB is not on value-adding through processing, the AWB has ‘clearly added value through a significant improvement in quality, consistency and satisfaction of client expectations’.¹¹
- 4.13 Goodman Fielder (GF) was not so supportive of the single desk arrangements commenting that ‘statutory marketing arrangements, including the single desk and grain pooling activities, and the translation effects of foreign exchange dealings, create price lags which distort market signals to domestic food manufacturers’.¹² GF, however, commented that it did ‘not oppose the single-desk arrangements that are in place at the moment but we do support proposals to partially deregulate wheat marketing before 2004’.¹³
- 4.14 GF accepted the objectives of the federal wheat marketing arrangements in aiming to get an export premium for growers. However, GF suggested that these arrangements place additional costs on the domestic food market. GF stated:

...they do impose additional costs on domestic food manufacturers and therefore Australian consumers. We believe they act as an anchor to value-adding and exports by other producers. For example, under current wheat marketing arrangements, the tender system is very cumbersome for domestic food producers like GF; it places priority on the export market and therefore the domestic market comes a distant second. Post-harvest access to wheat is restricted, and that poses additional constraints on our flexibility as producers and exporters. The Australian Wheat Board has a veto power over bulk exports, and that constrains us in shipping wheat to places like New Zealand and the Pacific Islands. The Australian Wheat Board has sole responsibility for setting standards and typically does so without consultation with domestic users, and we find that very difficult to deal with at times when we are trying to juggle a wide variety of grains.¹⁴

Conclusions

- 4.15 The Committee notes that a government decision has been made to retain the wheat single desk. In addition, the WEA will, before the end
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11 AFFA, submission no. 34.3., p. 4.

12 Goodman Fielder, submission no. 3, p. 3.

13 Mr Robert Hadler, Goodman Fielder, transcript of evidence, p. 291.

14 *ibid.*, p. 290.

of 2004, assess the performance of the AWB with regard to its use of sole wheat export rights. The Committee asserts that the WEA, as part of its review, should take into consideration the impact of single desk export arrangements upon the domestic food market.

Value-adding opportunities

4.16 The Grains Research and Development Corporation (GRDC) suggested that key value-adding activities ‘span from biotechnology, to farming systems knowledge and technology, plant breeding, grading and varietal segregation, other agricultural technology such as precision agriculture and farm machinery, through to human resource development and knowledge-based products and services’.¹⁵ In particular, the GRDC commented that ‘segregating for discriminating end use has been fundamental to the development of Australia’s grain markets’.¹⁶

4.17 In the wheat industry, value-adding is not necessarily about processing. As indicated above, the bulk of Australian wheat is exported in raw form. The export of flour has decreased during recent years. In 1997 the Senate Rural and Regional Affairs and Transport References Committee made some comments on this trend:

The changing nature of value-adding in the wheat industry is demonstrated by the increasing shift from the export of flour production to the export of bulk wheat. Despite support in the grains industry for the processing of wheat in Australia for export, as expressed at the Grains 2000 conference held in 1991, hundreds of flour mills have closed down in Australia in recent times. These mills closed because overseas buyers want to buy wheat in bulk not in the form of flour. Flour exports fell by over 90 per cent between 1952-53 and 1990-91. As of 1993 cereal and flour preparations, including starch and gluten, accounted for only 0.5 per cent of Australia’s merchandise exports.¹⁷

4.18 The focus of wheat exports has been on value-adding through producing special varieties of wheat in response to consumer needs, and through having better quality assurance. AFFA, as quoted in the

15 GRDC, submission no. 2.1, p. 3.

16 *ibid.*, p. 12.

17 Senate Rural and Regional Affairs and Transport References Committee, *Value-adding in Agricultural Production*, Senate Printing Office, Canberra, 1997, pp. 39-40.

Committee's first report, commented that 'in recent years the AWB have added value to bulk wheat through better quality assurance (protein, moisture, residue levels), development and segregation of varieties suited to particular end products, especially noodles, training in milling and baking programs for buyers of Australian wheat, and joint ventures with research bodies to develop wheats suited to customer requirements'.¹⁸ The AWB stated:

The value added by AWB is essentially taking that commodity, segregating it, matching it with market demand and then shipping that product to meet that market demand. What we are trying to do is focus on the needs of the customer and ensure that we have a demand driven rather than a supply driven industry. That can be contrasted to the situation that we might see in the United States, Argentina or the European Union.¹⁹

- 4.19 The AWB suggested that its approach to wheat value-adding was a strategy of wheat differentiation. At the same time, the AWB guarantees the quality and consistent supply of its product, which is more than other countries can do.²⁰ The AWB suggested that value-adding should not just be judged from the point of view of whether additional processing is occurring. The AWB commented that the 'principal focus remains on maintaining product integrity such that we can receive a higher end use price for that product'.²¹
- 4.20 The OUTLOOK 2001 conference heard that 'Australia has achieved a reputation for being a reliable supplier of mainly medium protein content wheat better suited to Asian food products'.²² In particular, the conference heard that 'Australia has now moved to a point where we are recognised internationally as the supplier of the widest range of quality types of wheat, comparable with, and often superior to, those supplied by our competitors'.²³
- 4.21 Some of the speciality wheat of the current export crop includes Prime Hard, Hard, Noodles, Soft and Durum. The OUTLOOK 2001 conference heard that all 'these varieties have been produced to meet quality guidelines based on detailed market knowledge, and it is in this area
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18 AFFA, submission no. 34, p. 18.

19 Mr Andrew McConville, AWB, transcript of evidence, p. 237.

20 *ibid.*, p. 237 and 246.

21 *ibid.*, p. 247.

22 Lindberg, A., 'Grain marketing, Competing in the domestic and international grain markets', *OUTLOOK 2001, Volume 2, Proceedings of the National Outlook Conference*, Canberra, 27 February to 1 March 2001, p. 247.

23 *ibid.*, p. 247.

- where we have established an enviable reputation'.²⁴ The AWB indicated that it had established a seeds business with a charter to 'develop new commercial varieties that will add value to the growers' bottom line through developing a better quality product'.²⁵
- 4.22 The GRDC drew attention to an Australian success story – the production of Japanese noodles. In 1990 the then Australian Wheat Board and an Australian food company decided not to produce Japanese noodles as it was considered that the product would not be competitive with the Japanese produce. The GRDC indicated that from 1996-1999 it invested some \$550 000 in the Asian Noodle Products Market Analysis Program, which developed an Asian noodle market research strategy. As a result of this program, a Japanese company established a factory in Ballarat and is producing and exporting five types of noodles under different brand names to Japan.²⁶
- 4.23 Goodman Fielder indicated that it purchases about one third of the Australian wheat crop produced for the domestic market. GF suggests that it achieves value-adding outcomes through product innovation. GF commented that 'we have been bringing out new products—value-adding wheat, rice and edible oils to produce ingredients or products such as Hi-maize, which is a resistant starch that adds fibre to white bread without changing the colour or texture'.²⁷
- 4.24 The Australian lupin industry is an interesting success story. Lupins were reported to be grown at the end of the 19th century near Lynton, North of Geraldton. The produce was mainly used to fatten sheep in the region. Harvesting and deliberate seeding became common in the decade after 1910.
- 4.25 In 1971-72 Cooperative Bulk Handling received its first lupins amounting to 1 453 tonnes.²⁸ By 1998-99 the area sown to lupins was 1.2 million hectares, the yield was 1.17 tonnes per hectare, and the total production was 1.4 million tonnes.²⁹
- 4.26 During the 1990s, the lupin industry focused on market development and 'backed research into the use of lupins for human consumption'.³⁰ It

24 *ibid.*, p. 247.

25 Mr Andrew McConville, AWB, transcript of evidence, p. 246.

26 GRDC, submission no. 2.1, p. 13.

27 Mr Robert Hadler, Goodman Fielder, transcript of evidence, p. 289.

28 Zekulich, Michael, *The Grain Journey, The History of the Grain Pool of WA*, PK Print, Beaconsfield, 1997, p. 61.

29 AWB, *Final Report of the Australian Wheat Board, 1 October 1998-30 June 1999*, 1999, p. 86.

30 *ibid.*, p. 65.

was in 1987 that the use of lupins for human consumption was approved.

- 4.27 The various stages of development and investment in the lupin industry has resulted in a successful product and made Western Australia a world leader. Zekulich states:

...Western Australia, through its own resources, was to become the world pioneer and leader in the commercial production of sweet white lupins—a valuable stockfeed protein and a source of flour for people who are gluten-intolerant.

Today lupins are embraced enthusiastically by wheatbelt farmers, especially on light lands. They produce their own nitrogen, reducing the farmer's costly fertiliser burden, and are a valuable rotation crop for wheat and barley.³¹

- 4.28 In relation to the long-term outlook for the grains sector, world population growth projections provide signals about the level of demand that may occur. World population is currently about 6 billion and by 2030 the population is projected to increase to about 10 billion. Much of this growth is expected to occur in the Asian region. At the same time, recent analysis suggests that as standards of living improve so will patterns of food consumption. The OUTLOOK 2001 conference heard that as 'larger portions of the population reach middle class incomes, the demand for rice is expected to continue to fall in favour of other foods, including wheat and wheat basket products'.³²
- 4.29 In the medium term to 2005, the Food and Agriculture Organisation projects that global trade in wheat will increase to about 115 million tonnes, an increase of 15 per cent on current levels. Asia is expected to account for about 46 per cent of this increased production. The OUTLOOK 2001 conference heard that these trends and patterns appear 'to present an excellent supply opportunity for Australia as a wheat producer'.³³
- 4.30 However, the international market for wheat is extremely competitive and distorted by the actions of tariffs and subsidies. Australia will need to ensure that it has effective strategies for dealing with these issues so

31 Zekulich, Michael, *The Grain Journey, The History of the Grain Pool of WA*, PK Print, Beaconsfield, 1997, p. 63.

32 Lindberg, A., 'Grain marketing, Competing in the domestic and international grain markets', *OUTLOOK 2001, Volume 2, Proceedings of the National Outlook Conference*, Canberra, 27 February to 1 March 2001, p. 246.

33 *ibid.*, p. 246.

that it can benefit from the increasing demand that is projected to occur. The following section examines some immediate issues.

Key challenges influencing value-adding

- 4.31 The major issues that are considered to have a significant impact on the wheat industry include:
- USA and EC government subsidies; and
 - government policies influencing R&D.

United States and European Community government subsidies

- 4.32 One of the key impediments affecting the wheat industry is the provision of economic subsidies by other countries. The impact of government subsidies can include lowering world prices and distorting market signals.
- 4.33 Governments of the EC and the USA are the main offenders. The OUTLOOK 2001 conference heard that governments in the EC and USA 'have sought to intervene in an attempt to correct poor outcomes for farmers, but they have only succeeded in making the situation worse for the taxpayer, for the farmer and for competitors'.³⁴
- 4.34 A recent study by the OECD estimated that 'production support per farmer in the United States rose from US\$12 000 in 1997 to US\$21 000 in 1999 compared to an OECD average of US\$10 000 in 1997 to US\$11 000 in 1999'.³⁵ For the period 1997-99 producer support estimates (PSEs) for European farmers was US\$801 a hectare, for the US farmers it was US\$85 a hectare and for Australian farmers it was only US\$3 a hectare.
- 4.35 The AWB reported that OECD estimates show that total government support to USA farmers will be in excess of \$US26 billion and for European farmers the figure is \$US40 billion.³⁶ The overall conclusion is that recent government assistance to USA farmers is reaching the levels attained in the 1980s under the Export Enhancement Program.
- 4.36 It was reported at the OUTLOOK 2001 conference that 'in Australia, support to agricultural producers is the second lowest in the OECD, behind New Zealand, and at 6 per cent of farm production value, is less

34 *ibid.*, p. 248.

35 *ibid.*, p. 248.

36 Mr Andrew McConville, AWB, transcript of evidence, p. 237.

than one sixth the OECD average'. In contrast, 'percentage PSE levels in the United States reached almost 25 per cent in 1999 and 49 per cent in the European Union'.³⁷

- 4.37 The OUTLOOK 2001 concluded that 'replacing legitimate commercial sales simply distorts market signals by dampening demand and can create a culture of reliance, doing long-term damage to commercial buying and consumption patterns, the net effect of which is to depress world prices'.³⁸ A similar conclusion was reached by the AWB which stated:

What does all that mean? It means that the farmers' production and risk decision making environment is distorted. He or she is continuing to receive payments from the government when, if based solely with the market price, the market price might dictate that they in fact go into some other business or do not produce as much. In the absence of that we are seeing farmers essentially respond to the government—oversupply—and that supply has to find a place somewhere. It finds its place in the world market or, alternatively, it goes into stocks. We now see stocks in the US at record levels, in excess of 20 million tonnes. That has a substantial overhang on the market.³⁹

- 4.38 In response to the impact of subsidies, the AWB's general approach was to ensure that the 'Australian wheat industry and its system of marketing is at the forefront of product differentiation and customer focused strategies to differentiate Australian wheat and capture full value'.⁴⁰

- 4.39 While there is no direct solution for the use of government subsidies by other countries, the view was expressed that the Australian Government should continue to raise these matters at international fora. The AWB stated:

In terms of what the Australian Government can do, it is a bit like water on a stone: if you keep dripping water on the stone, eventually the stone will crack. It is very important that we maintain the pressure through the likes of the Cairns Group, which is a very effective mechanism to highlight the regional

37 *ibid.*, p. 248.

38 *ibid.*, p. 249.

39 Mr Andrew McConville, AWB, transcript of evidence, p. 244.

40 Lindberg, A., 'Grain marketing, Competing in the domestic and international grain markets', *OUTLOOK 2001, Volume 2, Proceedings of the National Outlook Conference*, Canberra, 27 February to 1 March 2001, p. 249.

inequities in support that is paid to farmers around the world and the impact that that has on Australia, Canada and Argentina, to take the wheat industry as an example. Obviously we must continue to push for progress through the WTO and to try and get the next WTO round off the ground. The failure in Seattle was unfortunate.⁴¹

Conclusions

- 4.40 The use of government subsidies, particularly by the USA and EC, to support wheat farmers is a blight upon international trade. The market is distorted, market signals become unclear and ultimately world prices are depressed. The extent of subsidies was particularly high during the 1980s, and it is alarming that current subsidies are again reaching those levels. There is no easy solution to the problems created by subsidies.
- 4.41 The Australian Wheat Board is pursuing product differentiation and customer-focused strategies to differentiate Australian wheat and capture full value. In response to government subsidies, the Australian Government must continue to argue for an end to subsidies at international fora such as the World Trade Organisation.

Research and development

- 4.42 Evidence to the inquiry about government support for R&D was mixed. The AWB stressed that R&D was 'absolutely essential to our industry's successful continuation'.⁴² Similarly, GF commented that 'product innovation supported by commercialisation of research and development is a key area for value-adding'.⁴³
- 4.43 Consistent with this view, the AWB commented that the GRDC is a positive initiative and the current dollar-for-dollar funding by the Commonwealth Government should continue.⁴⁴ In 1999-2000 the GRDC committed payments of \$92 million to R&D. The GRDC's revenue was sourced mainly from industry contributions which amounted to \$50.5 million, Commonwealth contributions valued at \$31.8 million, and interest payments of \$7.8 million.⁴⁵

41 Mr Andrew McConville, AWB, transcript of evidence, p. 245.

42 *ibid.*, p. 243.

43 Mr Robert Hadler, Goodman Fielder, transcript of evidence, p. 291.

44 Mr Andrew McConville, AWB, transcript of evidence, p. 240.

45 GRDC, *Annual Report, 1999-2000*, p. 69.

4.44 The GRDC suggested that R&D is an essential part of the wheat industry's development and performance. The GRDC indicated that, mostly as a result of R&D, wheat yields during the 1990s have been around 30 per cent higher than those in the 1980s. Where higher wheat yields can be achieved there are significant benefits to producers. The GRDC stated:

The Centre for International Economics (2000) estimates that for each 1 per cent increase in wheat yield, around \$37 million dollars is added to annual income, spread across farmers, processors and consumers. Similarly, for each 1 per cent increase in wheat quality, around \$56 million is added to national income. The research indicated strong benefit-cost ratios for R&D in wheat breeding and R&D in downstream processing of wheat.

4.45 The GRDC, however, commented that 'business incentives for R&D need to be reviewed and enhanced'.⁴⁶ The GRDC stated:

A return to a higher R&D tax deduction incentive or some other equivalent mechanism needs to be considered. With the implementation of a new tax system on July 1, and a lower company tax rate, the incentive value of the 125% concession will be further eroded.⁴⁷

4.46 In relation to the 125 per cent tax concession, GF suggested that the reduction from the previous 150 per cent level had a significant impact on its R&D budget. GF commented that when 'we originally did our submissions to the government on the reduction from 150 per cent to 125 per cent, our estimates then were that we spent about \$25 million a year on pure research and development and that the reduction in the tax concession cost us about \$1 million out of that \$25 million of expenditure that we could claim back on tax'.⁴⁸ Consequently, GF is calling for the Government to reconsider its position on the R&D tax concession.

4.47 From a more industry-wide perspective, GF noted that survey figures by the Australian Bureau of Statistics show that 'company R&D has fallen following the decision to reduce the taxation incentive for corporate R&D from 150 per cent to 125 per cent'.⁴⁹

46 GRDC, submission no. 2.1, p. 5.

47 *ibid.*, p. 5.

48 Mr Robert Hadler, Goodman Fielder, transcript of evidence, p. 298.

49 Goodman Fielder, submission no. 3, p. 7.

Conclusions

- 4.48 In the previous chapter, the Committee commented on the Dairy RDC. In particular, the Committee made a recommendation relating to the funding mechanism. This recommendation also applies to the GRDC. In the final chapter, the Committee will examine the research and development corporation model in more detail and the R&D tax concessions from an industry-wide perspective.

