

Grain Growers Association Limited

Submission in response to the

Wheat Export Marketing Bill 2008 – Exposure draft.

March 2008

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# 1 Introduction

Grain Growers Association Ltd (GGA) is a not-for-profit, member based, industry association operating for the promotion and development of agricultural resources in Australia. GGA represents the interests of 17,000 members, the majority of whom are active producers in the grains industry. Through extensive member and industry consultation over a five year period GGA's vision has been established as:

- being a professional industry partner to members by growing the Australian grains industry through strategic investment in education, research, development and extension, and
- to educate farmers in relation to their increasing downstream involvement and influence in the marketplace and to provide tools to enable them to maximise their productivity and profitability.

GGA has maintained a consistent record of constructive analysis and measured debate on the need for reform of wheat marketing arrangements. GGA has sought independent advice, conducted factual, evidentiary based research and engaged in ongoing consultation processes with its membership base in developing its wheat marketing policy and leading the public debate.

GGA welcomes the opportunity to comment on the Wheat Export Marketing Bill 2008 – Exposure draft.

In our submission we have also incorporated relevant commentary provided previously to the Federal Government's Wheat Industry Expert's Group on issues that are common to both wheat marketing legislation and the provision of industry services<sup>1</sup>.

## 2 GGA view of the future:

There are several key drivers that will shape the wheat and grains market in Australia over the next 5 to 10 years, some of which will result from deregulation of the wheat market and some of which are external to marketing policy. The key drivers can be summarised as:

- Increasing diversity and specialisation of flour types driven by millers seeking to differentiate themselves will continue to drive demand for greater diversity of wheat grades and wheat types in Australia. Biotechnology advances are likely to accelerate the demand for speciality wheats and other grains.
- There will be an increase in the number of niche and small traders specialising in wheat grades and markets.

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<sup>1</sup> This report draws on information that is currently being drafted in a report on Industry Services by ACIL Tasman, and commissioned by GGA

- While there will be an increased diversity and a number of new entrants, the market will continue to be dominated by two or three large bulk wheat grades such as APW, AH and APH. Marketers of these grades will need to capture increased scale and scope economies to compete in international markets. The result will be increased consolidation of traders and bulk handlers in this part of the market. It is likely that there will be one or two domestic traders operating in place of AWB and the current bulk handling companies in future.
- There will be a number of new entrants in the Australian bulk wheat market. The new entrants will have significant experience and international grain marketing capacity. The entry strategies of the new entrants is unknown at this stage but the options include:
  - Joint venturing with existing companies (for example Elders and Toepfer)
  - Purchasing one or several of the existing companies
  - Establishing on their own right (for example the Aldi approach to entering the Australian retail grocery market)
  - Buying FOB from domestic traders.
- Domestic wheat consumption is likely to continue to grow as intensive animal industries confront increasing water costs and demand for animal proteins in Asia grows. Ethanol production may also increase domestic demand for all grains. This will result in smaller and less frequent exportable surpluses of wheat from the east coast. As a result, domestic customers are also likely to play a more prominent role in variety development, storage capacity and secondary markets (ASX futures contracts).

### **What does this mean?**

#### ***Increased consolidation...***

Increased consolidation in some sections of the wheat market is likely to reduce costs and provide a wider range of selling options and marketing services. However, consolidation may also reduce competition. The value of scale and scope economies to grain trading companies have driven the world market to high levels of concentration and will force the Australian market to do the same if it is to remain competitive.

#### ***... will benefit growers and marketers...***

Not all of the benefits of the efficiency gains through consolidation will be captured by the firms, farmers will also benefit from lower marketing and transaction costs. Scale and scope economies may also spillover to transport and storage and handling charges. It is ultimately in growers best interests for consolidation to occur.

Concentration of ownership of storage and handling infrastructure may also reduce competition if the owners of this infrastructure block access to other parties.

Commercially based drivers should ensure that market participants have appropriate levels of access to critical infrastructure.

The key challenge for the Australian wheat industry is to capture the benefits of an open and contestable market while not allowing any group of companies to extract excessive monopoly rents.

*...but will need to be monitored, and competition at the margin encouraged.*

Much of the transparency of an open and competitive wheat market will be achieved by an efficient futures market for wheat which will provide clear transparent price information. However, a futures market requires multiple participants.

There are primary ways that the duopoly/monopoly drivers of the grain industry can be countered:

- A reduction in the barriers to entry (and exit) for new entrants.
- Competition with the potential monopolists at the margin by smaller traders.

*In both instances increased transparency of the market is essential to ensure competition is maximised. To be transparent key industry statistics will need to be collected and published.*

Efficient and transparent markets require information about prices, supply and demand to be available to all participants. The Australian grains industry, if it becomes too concentrated, will not be transparent and will require some compulsory disclosure and the collation and interpretation of a number of existing sources of industry statistics.

Export shipments, shipping information and limited crop forecasts are all currently available however, stocks and export sales are currently not collected and/or publicly available. While some of this data is available it is not being collated, interpreted and published in a form that is usable by growers and the industry.

In short there is a need for an independent organisation(s) to provide credible and timely information on a range of grains industry issues.

### **3 General comments on the exposure Bill**

1. GGA supports the general thrust of the proposed Bill in that it provides a mechanism for regulated wheat exports with multiple commercial exporters servicing the market for Australian wheat and will provide benefits to growers through contestability.

To that end the core elements of the Bill are consistent with GGA's previously stated position of providing choice to the market with regulatory oversight.<sup>2</sup>

2. We note however that there are few federal precedents for this legislation in terms of any other agricultural commodity however the wine industry does have regulation that is similar in some respects. There is some relationship to the South Australian state deregulation of barley exports but this instrument has a sunset clause. The wine industry has a level of regulation of exports at a federal level which is applied through the Australian Wine and Brandy Corporation. This legislation provides for not only licensing of wine exports but also covers a range of industry good functions. By way of comparison, it is our understanding that the wine industry structure was created to provide protection for the wider industry from the actions of potentially unscrupulous traders, who through providing inferior or misdescribed product, could cause very large amounts of collateral damage to the wider Australian industry unless there was legislative protection.

Notwithstanding this however, the proposed wheat export Bill provides for a level of regulation that does not exist in the other major commodities produced by mixed grain producers. i.e. winter and summer cereals and oilseeds, wool, livestock and meat products, cotton, horticulture, etc. In many respects the proposed Bill covers areas that are already covered through the overarching impact of the Trade Practices Act and the activities of the ACCC in its oversight of competitive behaviour in Australian business as well as the Corporations Law and its oversight by ASIC.

3. Our understanding is that the Bill will be reviewed in 2010 under the general provision of the 5 yearly reviews related to competition policy, however these reviews are subject to the specific terms of reference for the review at the time. GGA would prefer that the proposed Bill contained a specific review (which may align with the competition policy review timeframe) with defined terms of reference. Such a review should consider:
  - a. Whether or not the legislation and regulation are providing appropriate controls to ensure a fully functional and competitive marketplace
  - b. Any changes that may be required to ensure appropriate functionality for the marketplace
  - c. The timeframe for the continuance of the arrangements and the future review periods.
4. Container and bag exports of wheat are already deregulated. The Government needs to be cautious of potential perverse or unintended outcomes from the proposed Bill in that it could inadvertently provide an incentive to the wheat export trade that encourages the growth in container based exports over bulk exports due to a level of arbitrage in administration. That is, if the process of bulk exporting is too onerous and the transaction costs are too high, then one reaction

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<sup>2</sup> GGA submission to the Wheat Export Marketing Consultative Committee February 2007

of the trade may be to favour container based trade as it has a significantly lower barrier to entry with no probity tests for exporters and potentially lower administrative, transaction ,and logistical costs. It may be preferable that container based exports also be included within the legislation to ensure this arbitrage doesn't occur and also to ensure that all means of export are required to report under the same terms and ensure an informed marketplace.

5. It should also be noted that the presence of legislation and accreditation is not of itself a guarantee of protection to growers in terms of counterparty financial risk. As has already been experienced, highly regulated markets can still fail to protect growers from exposure to rogue elements. While the proposed Bill has been drafted with the intent of providing a level of comfort to the industry, unless the Government is then also prepared to underwrite the counterparty financial exposure of growers to the trade, it is in effect fairly limited in the level of protection actually provided. It may well be better to consider legislation that regulates and monitors the actual trades rather than and the traders – (please refer to our alternate proposal later in this document.)
6. The area where the proposed Bill has a strong purpose is that of explicit requirements for competitive access to port facilities for all exporters. This area is particularly important and again while it is an area covered by the Trade Practices Act, there have been precedents where protracted legal argument has stifled access to natural monopoly infrastructure to the detriment of the Australian economy. GGA strongly supports this area of the proposed Bill.
7. We note that the proposed Bill and any subsequent accreditation related consideration only provides for consideration of the components of an applicant related directly to its bulk wheat export business. That is, it is likely that participants in the trade of wheat will participate in multiple paths to market through all means available including domestic trade, export in container and export in bulk. It may well be that the participants also trade in a wider range of commodities than just export wheat. Our understanding is that applicants for accreditation can only be scrutinised on that part of the business directly and exclusively involved with the application for accreditation for bulk wheat export. Thus all of the other parts of the applicants business will not necessarily be subjected to the same level of scrutiny. This is an issue in relation to procedural fairness and means that the proposed Bill provides no protection to growers in relation to their exposure to rogue elements that may be present in the non bulk wheat export components of grain traders.
8. The proposed Bill requires that an applicant for accreditation must be a company. While we appreciate that this has been drafted in respect of Commonwealth jurisdictions to ensure that the legislation applies to entities registered under the

Commonwealth Corporation Law, other business structures such as co-operatives (which are common in Australian agriculture and the grains industry) are regulated by State and Territory Governments in Australia under State Corporations Law and may be excluded from participating in exporting under this Bill. We believe these entities should be entitled to apply for export accreditation subject to compliance with relevant Corporations legislation. It should be possible for WEA to also conduct appropriate probity checks for these types of business structures.

9. The proposed Bill provides for annual reporting from bulk exporting companies. While this requirement is important, the retrospective nature of the reporting does not of itself provide any enhancement to ensure market functionality. GGA considers that there should be a requirement for “market sensitive” information to be reported to an appropriate independent agency on a more regular basis (say weekly). This type of information should be available to the marketplace to ensure that informed market signals flow through to the wider industry in a timely fashion in relation to ending stocks for the given period, level of exports, quality of the grain being exported, etc. This type of information can have an impact on the operations of international futures markets and general trade and so needs to be managed in a sensitive manner. We believe that the Bill should require a level of disclosure of this type of information from bulk exporters (and in fact it would be desirable for the container trade as well) as part of the continuous disclosure requirements. If this information is not required to be provided then it may become an area of market failure as exporters fail to provide strong market signals to the growers and the market as a whole. (Also see discussion on an alternative pathway in later section.)

GGA sees it as important that under the new regime for wheat marketing, growers must have easy and equitable access to reliable information about the market, production potential, ending stocks, etc on a continuous basis in order to be able to plan and market their own grain as well as effectively being able to manage risk.. We believe that this area of ensuring an informed marketplace will be the key to the success of the new arrangements, much more so than the accreditation of traders. An efficient marketplace is one where all parties to the trade are placed on an equal footing in terms of market strength. A major feature in this is that the marketplace is always fully informed of all material aspects of the trade.

## **4 Specific comments:**

### **Division 2—Formulation of the wheat export accreditation scheme**

#### **^8 Administrative decisions under the wheat export accreditation scheme**

WEA powers should include the power to vary granted accreditation and grant conditional accreditation.



### **Division 3—Eligibility for accreditation**

#### **^11 Eligibility for accreditation**

The requirements for applicants to be assessed as “fit and proper” provide an onerous task to the WEA. It is possible that the WEA may be subjected to strenuous legal action from any party who applies in good faith and is rejected for any reason. Similarly, any entity gaining accreditation that then fails entirely or for whatever reason fails to pay the sellers of the grain, may expose the WEA to significant legal action in respect to disaffected trade creditors seeking recovery of their exposure. This may place in the WEA in an untenable position.

It may be better to consider the simple licensing of exporters including containers and then applying a regulatory reporting regime over the individual trades rather than the traders as such. In this way it would be possible to monitor the trade and ensure the commercial activity is appropriate and transparent.

## **5 An alternative pathway to market regulation:**

An alternative means to achieve a workable regulatory system that oversees contestable wheat marketing arrangements is outlined below.

A more practical area for regulatory control may be to increase the scrutiny of the trade itself through requiring licensed exporters (for both bulk and container) to report their activities. In this way an independent authority or agency can monitor actual trade rather than the current assumption that accredited companies will act appropriately. With such a mechanism, the scrutineer would be able to ascertain if the individual trades were appropriate and if there were any deleterious impacts from multiple companies competing in sensitive markets for example.

There are considerable incentives for the Australian grains industry to continue, and even accelerate, the pace of consolidation in a contestable wheat market. This consolidation will unlock considerable scale and scope economies which growers will benefit from in the form of lower supply chain costs and improved services provided that an appropriate level of competition is evident.

To ensure that the market remains competitive, a range of information on prices, supply chain costs, wheat supply and demand, will need to be readily available to all participants. The provision of this information will ensure that the market remains transparent, small to

medium sized operators are competitive, and there are lower barriers to entry for new entrants.

The broad areas of information that will need to be collected to ensure this occurs can be summarised as:

- opening stocks
- sources of grain (total supply)
- disappearance (total demand)
- implied ending stocks.

Opening stocks are the stocks held in store at the beginning of the reporting period. This would include grain held in the bulk handling system, buyers' stores, growers' stores and stock in transit. Much of this information is currently not collected and/or not publicly available. There is considerable concern about the commercial sensitivity of this information, and it is at present, for good reason, closely guarded by the bulk handling companies. Grower stock information is not collected in any systematic or consistent way.

If any of the bulk handling companies released this information individually, it would be costly, as they would lose a competitive advantage. However, if all companies voluntarily released the information anonymously (or were compelled to), it is likely that any competitive disadvantage would be offset by all players knowing the stock situation across the country. If there is mutual gain in providing the information, bulk handling companies, buyers and sellers may be inclined to collaborate and provide the information to a trusted source.

Total supply information would include:

- planting intention and actual sowing area
- crop condition and moisture profiles
- seasonal outlooks
- harvest statistics.

This level of information is currently being collected by ABARE and several commercial providers.

It is likely that the ABS would be best placed to collect any sensitive stocks and trade data, as it would be viewed by the industry as independent and it already collects a range of highly sensitive data across a range of industries.

Total demand information would include:

- export statistics and stock in transit data
- likely demand from major markets
- livestock on feed data
- domestic flour market demand

- seed requirements for the following crop.

From the above information is collected, an ending stock position can be implied. This process could be conducted on a regular basis and published monthly.

In addition to stocks information, transport statistics may also assist smaller traders to compete. Transport information may include:

- shipping capacity and location, container capacity, availability and location
- rail capacity reports and location of rail cars
- road freight costs
- grain freight indexes and differential prices between different transport modes.

Not only is the collation and dissemination of this information likely to increase transparency, it will assist the regulators responsible for competition regulation to be able to ensure firms comply with competition laws.

Some examples of the type of information that could be assembled and published to increase transparency in the grain market, are shown below.

These charts and tables are produced for the Grain Transport Report, a weekly publication from the Transportation and Marketing Programs/Transportation Services Branch of the Agricultural Marketing Service of the USDA.

Table 1 **US export balances and cumulative exports (1,000 metric tonnes)**

Week ending <sup>1</sup>	Wheat					All wheat	Corn	Soybeans	Total
	HRW	SRW	HRS	SWW	DUR				
<b>Export Balances</b>									
11/1/2007	4,845	973	2,683	1,443	355	10,300	18,788	7,856	36,944
This week year ago	1,543	456	1,168	1,089	89	4,344	11,552	7,497	23,393
<b>Cumulative exports-marketing year<sup>2</sup></b>									
2007/08 YTD	6,560	3,685	3,563	1,967	522	16,296	10,534	5,296	32,126
2006/07 YTD	2,348	1,636	2,832	2,048	417	9,281	10,162	6,460	25,903
YTD 2007/08 as % of 2006/07	279	225	126	96	125	176	104	82	124
Last 4 wks as % of same period 2006/07	347	228	255	139	424	259	163	109	164
2006/07 Total	6,800	3,866	6,480	4,996	761	22,902	53,799	30,261	106,962
2005/06 Total	10,459	2,037	7,244	4,159	930	24,828	54,354	25,570	104,752

<sup>1</sup> Current unshipped export sales to date

<sup>2</sup> Shipped export sales to date; new marketing year now in effect for corn and soybeans sales

Note: YTD = year-to-date. Marketing Year: wheat = 6/01-5/31, corn & soybeans = 9/01-8/31

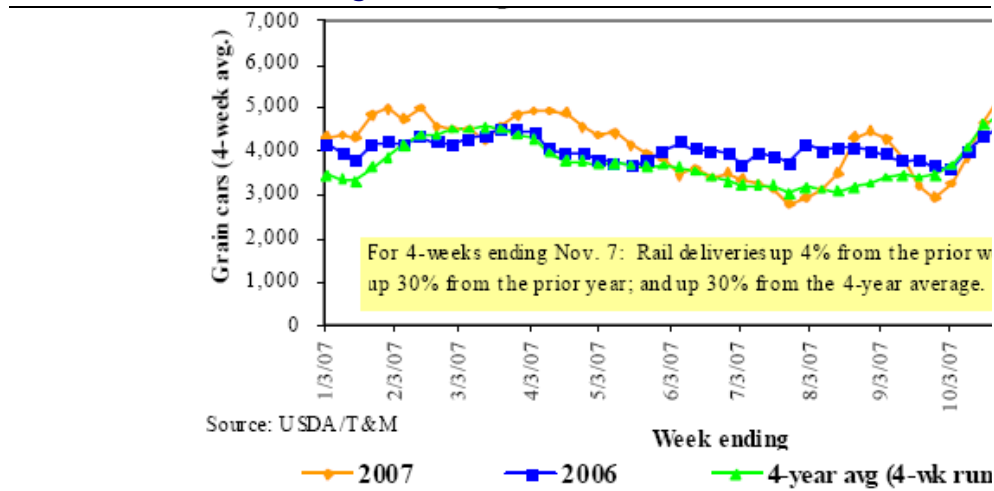
Source: Foreign Agricultural Service/USDA (www.fas.usda.gov)

Data source: USDA AMS 2007

The provision of transport data augments the stocks data, as the market would know not only what is on hand and roughly where it is, but also how, and when, it can be moved to domestic or export customers.

The collection of port transport (road, rail and barge) and up-country statistics in the US, encourages competition between all of these sectors. Up-country operators adjust their prices to retain stocks and through put if grain is flowing out to ports and export markets. If not enough grain is moving through export terminals, export operators and long haul transport modes will drop prices to attract up-country grain.

Chart 1 Rail grain deliveries to the Pacific Northwest



Data source: USDA ARS 2007

Table 2 Grain transport cost indicators

Week ending	Truck	Rail <sup>2</sup>	Barge	Ocean	
				Gulf	Pacific
11/14/07	230	33	243	514	652
11/07/07	222	55	232	514	660

<sup>1</sup>Indicator: Base year 2000 = 100; Weekly updates include truck = diesel (\$/gallon); rail = nearby secondary rail market (\$/car); barge = Illinois River barge rate (index = percent of tariff rate); and ocean = routes to Japan (\$/metric ton)

<sup>2</sup>The rail indicator is not an index. It is the difference between the nearby secondary rail market bid for this week and the average bid for year 2000 (+) 100.

Source: Transportation & Marketing Programs/AMS/USDA

Data source: USDA AMS 2007

Data source: USDA AMS 2007

The publishing of transport statistics also encourage the development of secondary markets in transport modes in the US. The information in Table 2 and Table 3 help inform the secondary market depicted in Chart 2 below.

Chart 2 Bids/offers for railcars to be delivered in November 2007, secondary

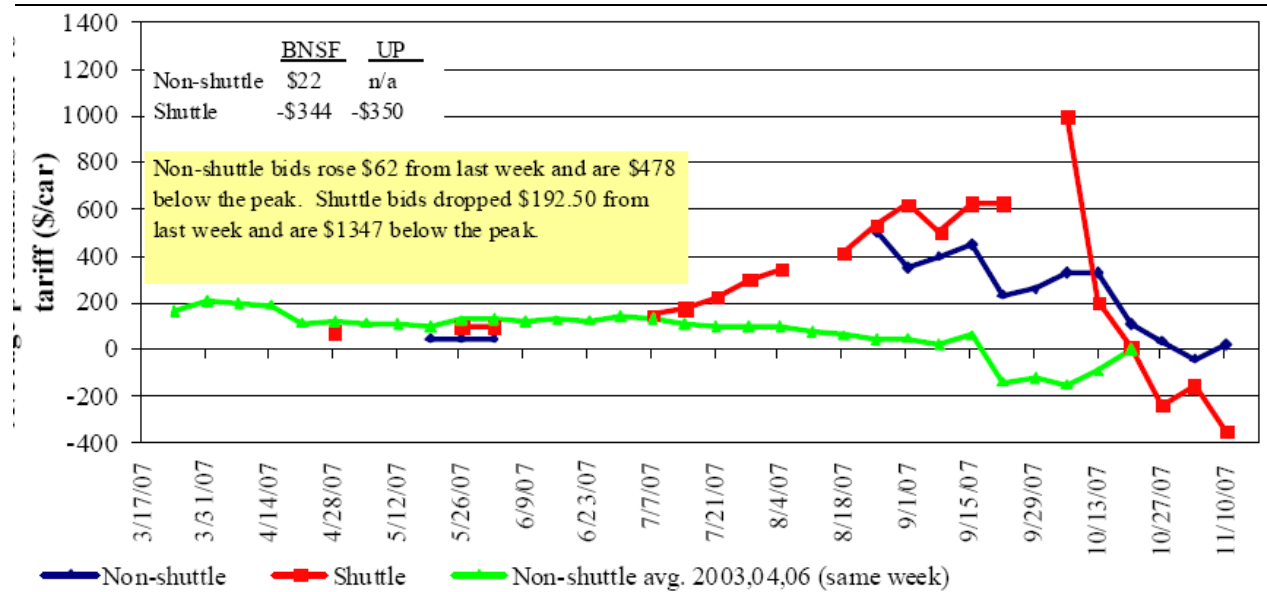
Table 3 Class 1 Rail Carrier Grain Car Bulletin (grain carloads originated)

Week ending	East		West			U.S. total	Canada	
	CSXT	NS	BNSF	KCS	UP		CN	CP
11/03/07	3,910	3,751	12,666	802	7,631	28,760	5,731	4,773
This week last year	3,968	3,023	10,084	534	6,575	24,184	5,996	6,243
2007 YTD	122,416	141,185	445,733	28,659	245,230	983,223	211,601	201,924
2006 YTD	138,109	142,787	434,526	24,756	257,923	998,101	217,631	198,019
2007 YTD as % of 2006 YTD	89	99	103	116	95	99	97	102
Last 4 weeks as % of 2006 <sup>1</sup>	96	109	123	138	120	116	98	93
Last 4 weeks as % of 3-yr avg. <sup>1</sup>	104	107	128	131	120	119	109	106
Total 2006	164,056	168,819	515,102	28,629	301,197	1,177,803	258,932	238,765

<sup>1</sup>As a percent of the same period in 2005 and the prior 3-year average. YTD = year-to-date.

Source: Association of American Railroads (www.aar.org)

market



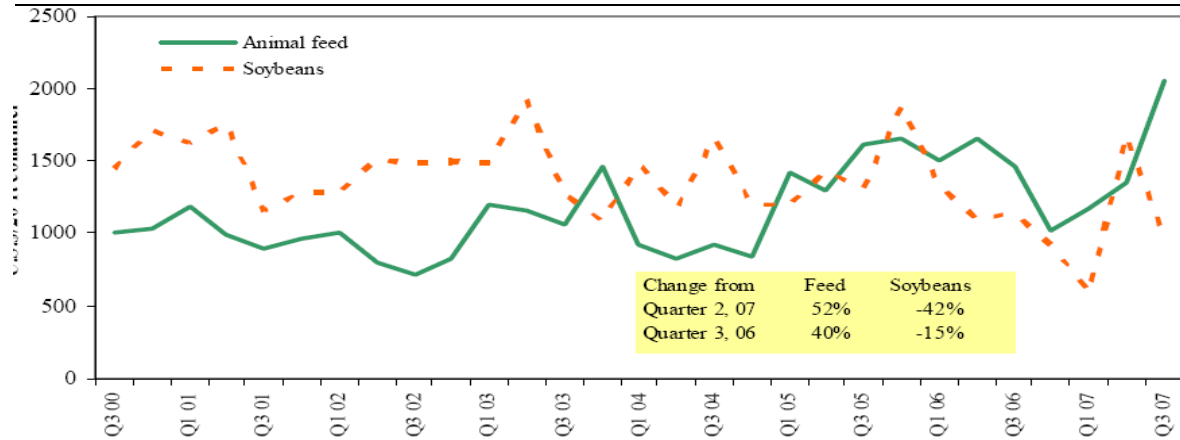
uded 2005 from the 3-year non-shuttle average due to abnormally high rates following Hurricanes Katrina and Rita.

-shuttle bids include unit-train and single-car bids. n/a = not available.

ce: Transportation & Marketing Programs/AMS/USDA

Data source: USDA ERS 2007

Chart 3 Ocean rates for containerised shipments to select Asian countries



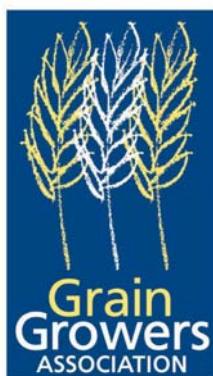
are weighted by shipping line market share and destination country. Rates provided are publicly filed tariff rates, not those negotiated in a confidential service contract.  
 ries include: Animal Feed: Bangkok-Thailand (1%), Busan-Korea (30%), Hong Kong (17%), Kaohsiung/Keelung-Taiwan (32%),  
 -Japan (20%). Soybeans: Kaohsiung/Keelung-Taiwan (98%), Tokyo-Japan (2%)  
 e: Ocean Rate Bulletin, Quarter 3, 2007, Transportation & Marketing Programs/AMS/USDA

Data source: USDA AMS 2007

## 6 Concluding comments:

We appreciate that the Government is attempting to implement a new arrangement for exports of Australian bulk wheat that will maximise the benefits to Australia, the industry and growers. However GGA has some concerns that some of the propositions set out in the exposure draft Bill may not be workable in their current form and that some changes should be made to establish a system that monitors the conduct of the trade.

GGA would like to thank the Government for the open and transparent development of this exposure Bill and providing an opportunity for industry to participate in the development of the final Bill. Against that background GGA has attempted to provide constructive alternatives in this submission for consideration by Government and industry.



**Grain Growers Association Limited**

**Submission to the**

**Wheat Industry Expert Group**

**The Provision and Transition of Industry  
Development Functions for the Australian Wheat  
Industry**

**Discussion Paper**

**March 2008**

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Grain Growers Association Ltd (GGA) welcomes the opportunity to comment on *The Provision and Transition of Industry Development Functions for the Australian Wheat Industry - Discussion Paper*.

This report draws on information that is currently being drafted in a report on Industry Services by ACIL Tasman commissioned by GGA.

## 1 General comments:

GGA is overall supportive of the discussion paper and expresses an interest in potentially undertaking some of the roles associated with “industry good” highlighted in this report. In many ways it is our view that GGA is the only organisation that has the immediate capacity to undertake some of these development functions that helps to build industry value.

## 2 Overview of GGA:

Grain Growers Association Ltd (GGA) is a not-for-profit, member based, industry association operating for the promotion and development of agricultural resources in Australia. GGA represents the interests of 17,000 members, the majority of whom are active producers in the grains industry. Through extensive member and industry consultation over a five year period GGA’s vision has been established as:

- being a professional industry partner to members by growing the Australian grains industry through strategic investment in education, research, development and extension, and
- to educate farmers in relation to their increasing downstream involvement and influence in the marketplace and to provide tools to enable them to maximise their productivity and profitability.

GGA has maintained a consistent record of constructive analysis and measured debate on the need for reform of wheat marketing arrangements. GGA has sought independent advice, conducted factual, evidentiary based research and engaged in ongoing consultation processes with its membership base in developing its wheat marketing policy and leading the public debate.

It is our view that in the more deregulated grain markets, existing traders and new entrants (including former statutory marketers) have the capacity, capability and the incentives to provide a range of services and promote Australian wheat to international customers. This has clearly been the case in the Australian barley market since deregulation which also suggests that overall the wheat market will respond to the need for services where there is the commercial incentive to do so. This applies equally to

those services that have been historically provided under monopoly arrangements and will still be required and those that will emerge as a result of market liberalisation and have not yet been identified.

It is also our view that Government's role should not be one of intervention per se but to ensure that the wheat industry itself can mitigate the risks of potential under-investment in the provision of industry services, particularly in the initial transition period post July 2008.

### 3 GGA view of the future:

There are several key drivers that will shape the wheat and grains market in Australia over the next 5 to 10 years, some of which will result from deregulation of the wheat market and some of which are external to marketing policy. The key drivers can be summarised as:

- Increasing diversity and specialisation of flour types driven by millers seeking to differentiate themselves will continue to drive demand for greater diversity of wheat grades and wheat types in Australia. Biotechnology advances are likely to accelerate the demand for speciality wheats and other grains.
- There will be an increase in the number of niche and small traders specialising in wheat grades and markets.
- While there will be an increased diversity and a number of new entrants, the market will continue to be dominated by two or three large bulk wheat grades such as APW, ASW and APH. Marketers of these grades will need to capture increased scale and scope economies to compete in international markets. The result will be increased consolidation of traders and bulk handlers in this part of the market. It is likely that there will be one or two domestic traders operating in place of AWB and the current bulk handling companies in future.
- There will be a number of new entrants in the Australian bulk wheat market. The new entrants will have significant experience and international grain marketing capacity. The entry strategies of the new entrants is unknown at this stage but the options include:
  - Joint venturing with existing companies (for example Elders and Toepfer)
  - Purchasing one or several of the existing companies
  - Establishing on their own right (for example the Aldi approach to entering the Australian retail grocery market)
  - Buying FOB from domestic traders.
- Domestic wheat consumption is likely to continue to grow as intensive animal industries confront increasing water costs and demand for animal proteins in Asia grows. Ethanol production may also increase domestic demand for all grains. This will result in smaller and less frequent exportable surpluses of wheat from the east coast. As a result, domestic customers are also likely to play a more prominent role in

variety development, storage capacity and secondary markets (ASX futures contracts).

### **What does this mean?**

#### ***Strong incentives to invest in promotion and technical services...***

Niche marketers will have strong incentives to promote the wheat that they are marketing and are not likely to benefit from generic promotion or technical support of Australian wheat grades. However, the capacity for these traders to fund sophisticated technical support infrastructure may be limited.

Consolidation of bulk grain marketers and handling companies will increase the capacity of these firms to promote Australian wheat. Domestic companies will also have strong incentives to increase Australia's wheat market share as they will have considerable investments in the Australian industry. There will also be incentives for these companies to voluntarily work together to promote and technically support Australian wheat as has been the case with Barley Australia.

Therefore there is likely to be a limited requirement for consistent and systematic generic promotion and technical support of Australian wheat.

This does not mean there will not be instances where the market under invests in promotion and technical support for Australian wheat. Underinvestment is likely to be most acute during the period of transition from a regulated export monopoly

#### ***...but limited incentives to invest in wheat industry technical capacity and human resources.***

To promote and technically support Australian wheat, niche and bulk wheat marketers will require specialist wheat (and grain) technicians and scientists to provide technical support to customers and develop new wheat products and services. As with most industries there are limited incentives to invest in the development of human grains industry capital. Agricultural research faces similar capacity constraints.

#### ***Increased consolidation of the wheat market...***

Increased consolidation in some sections of the wheat market is likely to reduce costs and provide a wider range of selling options and marketing services. However, consolidation may also reduce competition. The value of scale and scope economies to grain trading companies have driven the world market to high levels of concentration and will force the Australian market to do the same if it is to remain competitive.

***... will benefit growers and marketers...***

Not all of the benefits of the efficiency gains through consolidation will be captured by the firms, farmers will also benefit from lower marketing and transaction costs. Scale and scope economies may also spillover to transport and storage and handling charges. It is ultimately in growers best interests for consolidation to occur.

Concentration of ownership of storage and handling infrastructure may also reduce competition if the owners of this infrastructure block access to other parties. Commercially based drivers should ensure that market participants have appropriate levels of access to critical infrastructure.

The key challenge for the Australian wheat industry is to capture the benefits of an open and contestable market while not allowing any group of companies to extract excessive monopoly rents.

***...but will need to be monitored, and competition at the margin encouraged.***

Much of the transparency of an open and competitive wheat market will be achieved by an efficient futures market for wheat which will provide clear transparent price information. However, a futures market requires multiple participants.

There are primary ways that the duopoly/monopoly drivers of the grain industry can be countered:

- A reduction in the barriers to entry (and exit) for new entrants.
- Competition with the potential monopolists at the margin by smaller traders.

***In both instances increased transparency of the market is essential to ensure competition is maximised. To be transparent key industry statistics will need to be collected and published.***

Efficient and transparent markets require information about prices, supply and demand to be available to all participants. The Australian grains industry, if it becomes too concentrated, will not be transparent and will require some compulsory disclosure and the collation and interpretation of a number of existing sources of industry statistics.

Export shipments, shipping information and limited crop forecasts are all currently available however, stocks and export sales are currently not collected and/or publicly available. While some of this data is available it is not being collated, interpreted and published in a form that is usable by growers and the industry.

In short there is a need for an independent organisation(s) to provide credible and timely information on a range of grains industry issues.

## 4 Specific comments:

GGA comments in relation to the IEG's preliminary recommendations are:

### 4.1 Industry Strategic Planning

*Organisations and companies continue to undertake strategic planning to meet their individual needs. Any industry wide strategic plan would be considered in the context of efforts to establish an industry body that represents all sectors.*

GGA supports this recommendation but we caution that previous attempts at industry level strategic planning have largely resulted in an agreed plan but no means for implementation. As such there is market failure at this level and some government intervention may be required.

Grains Council of Australia is mentioned as being a group historically involved in this area but at present we are concerned that there may not be the financial nor administrative capability to undertake the role into the future unless there was significant investment from external parties.

GGA is a body that is an organisation that is independently financially sound and capable of providing a level of services to the industry for "industry good" should the industry wish us to take on this mantle.

### 4.2 Research and Development

*The GRDC should continue to undertake Research and Development (R&D) on behalf of the wheat and other grains industry as a whole. The IEG also noted that the longstanding funding arrangement between industry and the Australian Government for the GRDC has delivered significant benefits to the grains industry and should continue.*

*Other organisations would be responsible for conducting additional research that is necessary to meet their own needs or the needs of a specific industry sector.*

GGA supports this recommendation.

### 4.3 Wheat Variety Classification

*The GRDC should manage wheat variety classification utilising the existing process, subject to confirmation by the Government that this function is eligible expenditure under the Primary Industries and Energy Research and Development Act 1989.*

*The Wheat Classification Panel should have representation from producers, major exporters, the domestic processing industry and independent expertise as required. The*

*GRDC would oversee an appropriate consultation process for appointing the Panel members.*

*The representatives sitting on the Panel will be funded by their organisations, as the benefit of representation goes directly to those bodies. The GRDC should provide secretariat support for the Panel.*

*The service should be incorporated with existing GRDC resources and no increase in levy payments would be required.*

*The accreditation of laboratories and the testing costs associated with the classification process should rely on existing services and be funded by users on a fee for service basis.*

GGA supports this recommendation, however we note that over time there may be a shift away from the current classification system depending on market requirements and also that individual companies may develop their own proprietary classifications if they see advantages in doing so. There may also be new payment protocols developed that provide growers with incentives for production of grain with attributes that are not currently covered under the present variety classifications. At present for example, the Australian wheat industry excludes red wheats as a point of market differentiation. In future some industry interests may wish to promote red wheats.

If this recommendation is implemented, consideration should be given to ensuring that there is appropriate representation of all stakeholders, including growers. It will be important that this panel continues to operate in the best interests of the industry as a whole.

#### **4.4 Wheat Receival Standards**

*The annual review and development of industry agreed wheat receival standards should be managed by NACMA under the existing processes.*

*Individual grain marketers should develop refinements to complement the industry agreed standards.*

GGA supports this recommendation with the caveats of the previous point.

Receival standards is an area of particular interest for many growers is the maintenance of wheat variety classifications and the international branding (into specific grades such as ASW, APW APH etc.) of Australian wheat. These two activities are seen by some as critical to the future of the industry.

The key questions for this analysis are:

- Will there be a need for variety classification and stewardship of Australian wheat brands in a deregulated market?
- If so, then who is best placed to provide the services that will maintain classification and international branding?

Essentially wheat variety classification is bundling wheat into categories, based on similar quality characteristics. These classifications provide the buyer with a broad indication that the wheat they purchase will perform within a particular range, during processing into flour and then into wheat based products. As was demonstrated in a previous section, more and more wheat classifications have been introduced into the Australian market as buyers demand higher levels of differentiation of the grain they are buying.

This trend is likely to continue, as buyers increasingly ask for, and get, wheat purchased on increasingly narrow specifications. For niche wheat varieties, generic classifications are becoming irrelevant as the wheat is traded on its specific characteristics.

For bulk wheat, broad classifications will evolve from those that exist today, if the classifications used are consistent with buyers' requirements and they reduce transaction costs. In much the same way as standard contract terms and conditions are used by industry, wheat classifications are a means of standardisation. By standardising terms and conditions of trading, buyers and sellers do not have to draw up and agree to new terms and conditions for every trade; hence costs of trading are reduced.

Wheat classifications will be maintained by industry as a means of standardising contracts and reducing transaction costs. They are likely to be based on existing classifications to provide buyers with some continuity during the transition phase. Wheat classification is best managed by collective negotiation between the Australian grain industry and buyers. NACMA appears to be best placed to provide this forum for negotiation, as it does for most other grains.

The grains industry in Australia has developed: (i) a series of grain quality standards, (ii) standard contract terms and conditions, and (iii) dispute resolution processes, for virtually all grain grown and marketed in Australia. The mechanism under which this has been achieved is with NACMA. It was formed to allow the Australian grains industry to formulate and agree on a wide range of tools to facilitate trade, discuss industry issues, and reduce the cost of marketing grain in Australia.

NACMA has over 300 grains industry members, including AWB, ABB, CBH, GrainCorp, numerous smaller grain exporters, GGA and the GCA. NACMA is the Australian industry's self-regulatory body, representing and servicing the commercial interests of the Australian grains industry. It is an independent, and non-commercial,

body that operates to ensure the smooth facilitation of trade and commerce within the grains sector<sup>1</sup>.

#### **4.5 Information Provision**

*The lead agency would be ABS, which in conjunction with ABARE and other agencies as required, would publish monthly base information covering:*

- *production (forecast and actual) – commodity by tonnes by hectare by region;*
- *supply – stocks in storage – commodity by tonnes by major classification by port zone; and*
- *exports – commodity by tonnes by destination by port zone, both in containers and in bulk.*

*This information would be collated and distributed by ABS under its mission to assist and encourage informed decision making, research and discussion within governments and the community, by leading a high quality, objective and responsive national statistical service.*

GGA supports but has reservations about this recommendation in that there may be a gap created in market knowledge and information transfer unless the market participants are required to continuously report to the marketplace via an honest broker. That is that market players will seek to limit the information provided to the marketplace where this information is seen as commercially valuable. However, it is important that certain information is available on a continuous basis to ensure an informed and transparent functioning market. Such information could include stocks on hand and quality information as well as location, details of sales volumes, prices and destinations, etc. It may be better that an independent group / agency has the power to require information about market sensitive information which it then treats in a confidential manner and releases aggregated information to the marketplace in a known schedule similar to the manner the Australian Reserve Bank makes announcements in relation to monetary policy. If the industry is not compelled to provide sufficient information to the marketplace in a timely manner, then there is potential for market failure and growers and traders will not be able to respond appropriately to either market requirements or appropriately manage risk.

GGA sees it as important that under the new regime for wheat marketing, growers must have easy access to reliable information about the market, production potential, ending stocks, etc on a continuous basis in order to be able to plan and market their own grain as well as understand the positions being taken by the traders on the opposite side of the equation.

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<sup>1</sup> *Providing commercial rules and standards for the Australian Grains Industry*, NACMA 2006. More information on NACMA can be found at [www.nacma.com.au](http://www.nacma.com.au)



To ensure that the market remains competitive, a detailed range of information on prices, supply chain costs, wheat supply and demand, will need to be readily available to all participants. The provision of this information will ensure that the market remains transparent, small to medium sized operators are competitive, and there are lower barriers to entry for new entrants.

The broad areas of information that will need to be collected to ensure market transparency, can be summarised as:

- opening stocks
- sources of grain (total supply)
- disappearance (total demand)
- implied ending stocks.

Opening stocks are the stocks held in store at the beginning of the reporting period. This would include grain held in the bulk handling system, buyers' stores, growers' stores and stock in transit. Much of this information is currently not collected and/or not publicly available. There is considerable concern about the commercial sensitivity of this information, and it is at present, for good reason, closely guarded by the bulk handling companies. Grower stock information is not collected in any systematic or consistent way.

If any of the bulk handling companies released this information individually, it would be costly, as they would lose a competitive advantage. However, if all companies voluntarily released the information anonymously, it is likely that any competitive disadvantage would be offset by all players knowing the stock situation across the country. If there is mutual gain in providing the information, bulk handling companies, buyers and sellers may be inclined to collaborate and provide the information to a trusted source.

Statistics would include (depending on the stage of the season):

- planting intention and actual sowing area
- crop condition and moisture profiles
- seasonal outlooks
- harvest statistics.

This information is being collected by ABARE and several commercial providers.

It is likely that the ABS would be best placed to collect any sensitive stocks and trade data, as it would be viewed by the industry as independent and it already collects a range of highly sensitive data.

Total demand information would include:

- export statistics and stock in transit data
- likely demand from major markets
- livestock on feed data

- domestic flour market demand
- seed requirements for the following crop.

Once all of this information is collected, an ending stock position can be implied. This process could be conducted on a regular basis and published monthly.

In addition to stocks information, transport statistics may also assist smaller traders to compete. Transport information may include:

- shipping capacity and location, container capacity, availability and location
- rail capacity reports and location of rail cars
- road freight costs
- grain freight indexes and differential prices between different transport modes.

Not only is the collation and dissemination of this information likely to increase transparency, it will assist the regulators responsible for competition regulation to be able to ensure firms comply with competition laws.

Some examples of the type of information that could be assembled and published to increase transparency in the grain market, are shown below.

These charts and tables are produced for the Grain Transport Report, a weekly publication from the Transportation and Marketing Programs/Transportation Services Branch of the Agricultural Marketing Service of the USDA.

**Table 1 US export balances and cumulative exports (1,000 metric tonnes)**

Week ending <sup>1</sup>	Wheat						Corn	Soybeans
	HRW	SRW	HRS	SWW	DUR	All wheat		
<b>Export Balances</b>								
11/1/2007	4,845	973	2,683	1,443	355	10,300	18,788	7,856
This week year ago	1,543	456	1,168	1,089	89	4,344	11,552	7,497
<b>Cumulative exports-marketing year<sup>2</sup></b>								
2007/08 YTD	6,560	3,685	3,563	1,967	522	16,296	10,534	5,296
2006/07 YTD	2,348	1,636	2,832	2,048	417	9,281	10,162	6,460
YTD 2007/08 as % of 2006/07	279	225	126	96	125	176	104	82
Last 4 wks as % of same period 2006/07	347	228	255	139	424	259	163	109
2006/07 Total	6,800	3,866	6,480	4,996	761	22,902	53,799	30,261
2005/06 Total	10,459	2,037	7,244	4,159	930	24,828	54,354	25,570

<sup>1</sup> Current unshipped export sales to date

<sup>2</sup> Shipped export sales to date; new marketing year now in effect for corn and soybeans sales

Note: YTD = year-to-date. Marketing Year: wheat = 6/01-5/31, corn & soybeans = 9/01-8/31

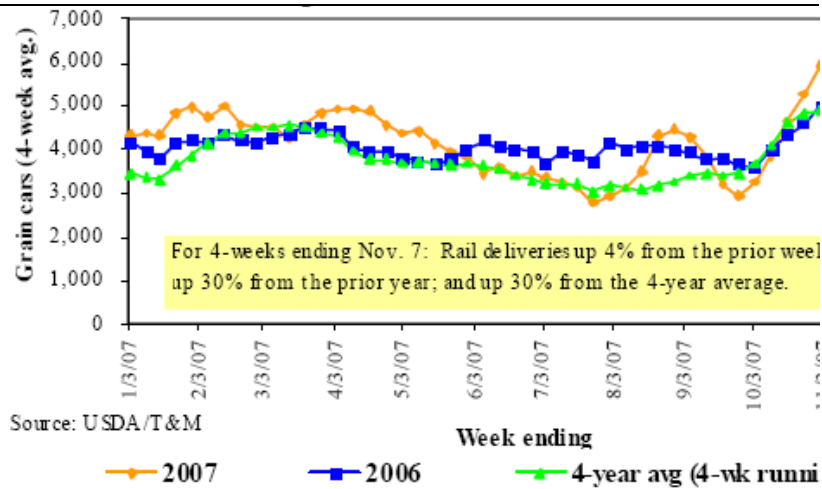
Source: Foreign Agricultural Service/USDA ([www.fas.usda.gov](http://www.fas.usda.gov))

*Data source: USDA AMS 2007*

The provision of transport data augments the stocks data, as the market would know not only what is on hand and roughly where it is, but also how, and when, it can be moved to domestic or export customers.

The collection of port transport (road, rail and barge) and up-country statistics in the US, encourages competition between all of these sectors. Up-country operators adjust their prices to retain stocks and through put if grain is flowing out to ports and export markets. If not enough grain is moving through export terminals, export operators and long haul transport modes will drop prices to attract up-country grain.

Chart 1 **Rail grain deliveries to the Pacific Northwest**



Data source: USDA ARS 2007

Table 2 **Grain transport cost indicators**

Week ending	Truck	Rail <sup>2</sup>	Barge	Ocean	
				Gulf	Pacific
11/14/07	230	33	243	514	652
11/07/07	222	55	232	514	660

<sup>1</sup>Indicator: Base year 2000 = 100; Weekly updates include truck = diesel (\$/gallon); rail = nearby secondary rail market (\$/car); barge = Illinois River barge rate (index = percent of tariff rate); and ocean = routes to Japan (\$/metric ton)

<sup>2</sup>The rail indicator is not an index. It is the difference between the nearby secondary rail market bid for this week and the average bid for year 2000 (+) 100.

Source: Transportation & Marketing Programs/AMS/USDA

Data source: USDA AMS 2007

The publishing of transport statistics also encourage the development of secondary markets in transport modes in the US. The information in Table 2 and Table 3 help inform the secondary market depicted in Chart 2 below.

Chart 2 Bids/offers for railcars to be delivered in November 2007,

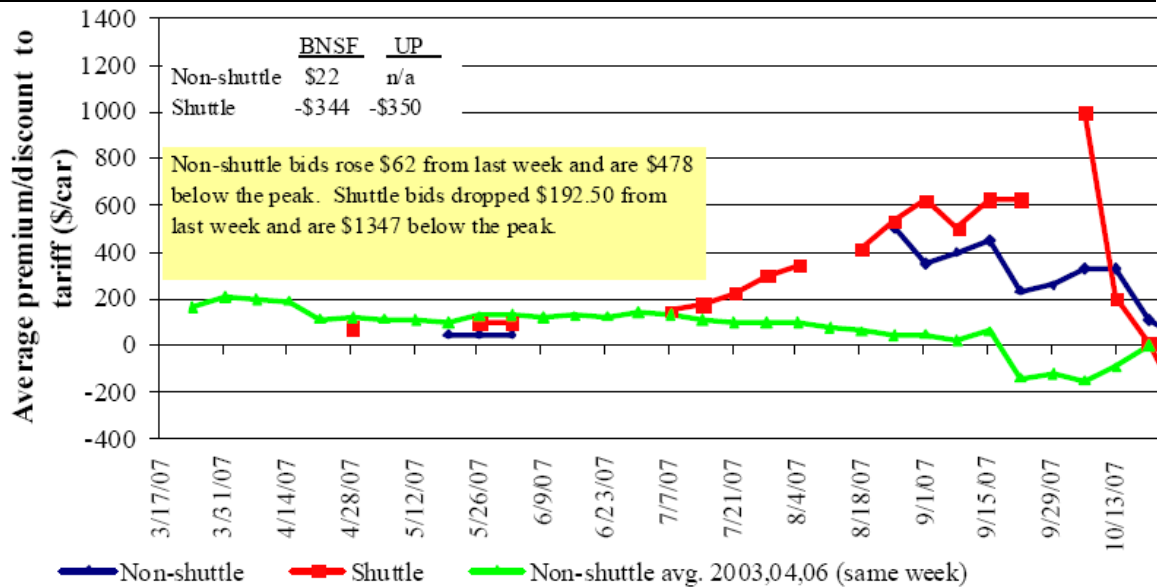
Table 3 Class 1 Rail Carrier Grain Car Bulletin (grain carloads originated)

Week ending	East		West			U.S. total	Canada	
	CSXT	NS	BNSF	KCS	UP		CN	CP
11/03/07	3,910	3,751	12,666	802	7,631	28,760	5,731	4,77
This week last year	3,968	3,023	10,084	534	6,575	24,184	5,996	6,24
2007 YTD	122,416	141,185	445,733	28,659	245,230	983,223	211,601	201,92
2006 YTD	138,109	142,787	434,526	24,756	257,923	998,101	217,631	198,01
2007 YTD as % of 2006 YTD	89	99	103	116	95	99	97	102
Last 4 weeks as % of 2006 <sup>1</sup>	96	109	123	138	120	116	98	93
Last 4 weeks as % of 3-yr avg. <sup>1</sup>	104	107	128	131	120	119	109	106
Total 2006	164,056	168,819	515,102	28,629	301,197	1,177,803	258,932	238,76

<sup>1</sup>As a percent of the same period in 2005 and the prior 3-year average. YTD = year-to-date.

Source: Association of American Railroads (www.aar.org)

**secondary market**



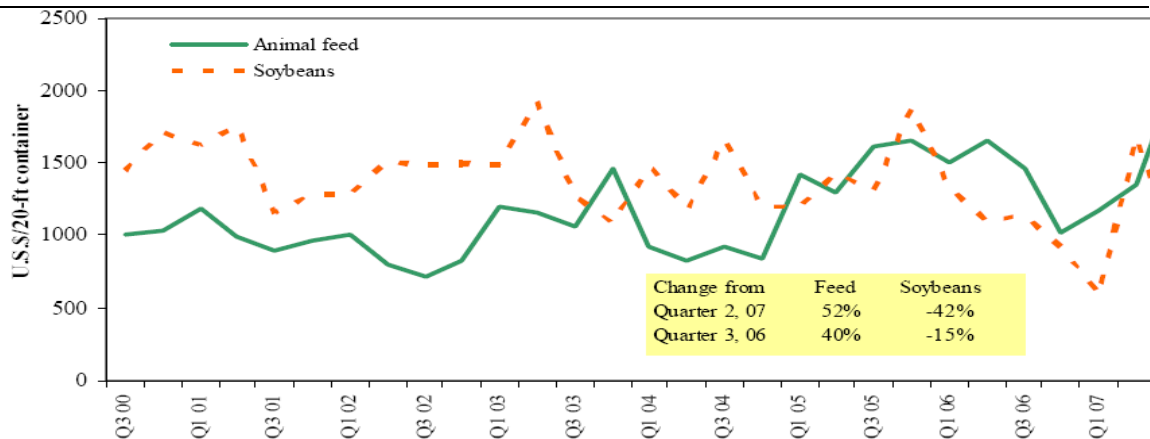
Excluded 2005 from the 3-year non-shuttle average due to abnormally high rates following Hurricanes Katrina and Rita.

Non-shuttle bids include unit-train and single-car bids. n/a = not available.

Source: Transportation & Marketing Programs/AMS/USDA

Data source: USDA ERS 2007

Chart 3 **Ocean rates for containerised shipments to select Asian countries**



<sup>1</sup>Rates are weighted by shipping line market share and destination country. Rates provided are publicly filed tariff rates, not those negotiated in a confidential service contract.

Countries include: Animal Feed: Bangkok-Thailand (1%), Busan-Korea (30%), Hong Kong (17%), Kaohsiung/Keelung-Taiwan (32%), Tokyo-Japan (20%). Soybeans: Kaohsiung/Keelung-Taiwan (98%), Tokyo-Japan (2%)

Source: Ocean Rate Bulletin, Quarter 3, 2007, Transportation & Marketing Programs/AMS/USDA

Data source: USDA AMS 2007

#### 4.6 Crop Shaping Activities

*Companies should continue to provide pricing signals to growers that seek to reflect market conditions and customer demands.*

GGA expects that the commercial players will provide the appropriate incentives to growers in a timely and efficient manner so that the Australian industry as a whole can supply the wide ranging needs of a diverse customer base across the world. There may need to be some assessments made of the commercial performance of Australian wheat by an independent body so that the marketplace is informed and this information can be considered along with the agronomic performance data. Commercial assessment has some overlay into promotion and classification areas as well.

#### 4.7 Technical market support

*Technical support is essentially after sale support to customers to ensure sales. This is a commercial activity and primarily the responsibility of the marketer.*

*The government provides some assistance through Austrade and will continue this service, as required.*

GGA supports this recommendation. An issue here is that of pre market technical support which sits between R&D and the marketplace. This would relate to the extension of information to the desired points in the chain where we are currently seeing a reduction in

the capacity of traditional state agencies and research providers withdrawing from this area. There are few providers who are acting in a wider industry good manner in this area and could be the subject of market failure.

The information in relation to commercial performance of Australian wheat also needs to be fed back to the R&D providers and breeding teams so that investments can be made to ensure that the appropriate commercial requirements are continually being met.

#### **4.8 Wheat Promotion**

*The IEG considers that industry has a role in promoting Australian wheat generically but it will be for key stakeholders of Australian wheat to coordinate and lead this promotion, if they consider it is necessary. Exporters will also continue to undertake promotion activities in specific markets.*

GGA supports this recommendation but with reservations. Our own research into this area through our document “*What the world wants from Australian Wheat Growers*” highlighted that Australian growers were not being completely informed about what the world wanted nor was the marketing player extracting maximum value. There is a need for the industry to undertake general promotion but also in reverse inform the growers of the needs and opportunities. While the commercial parties will obviously undertake this role where it is commercially advantageous to do it, market failure could occur in the form of lack of transparency of information back to growers about new market opportunities that are not being pursued by current players.

There have also been incidents in the past where grain has been sold to export markets that have had some level of quality deficiency. If there is no place for general response to promotion and issues management across the industry, then the whole industry could be affected as the market learns about some poor “Australian” wheat rather than the specific case.

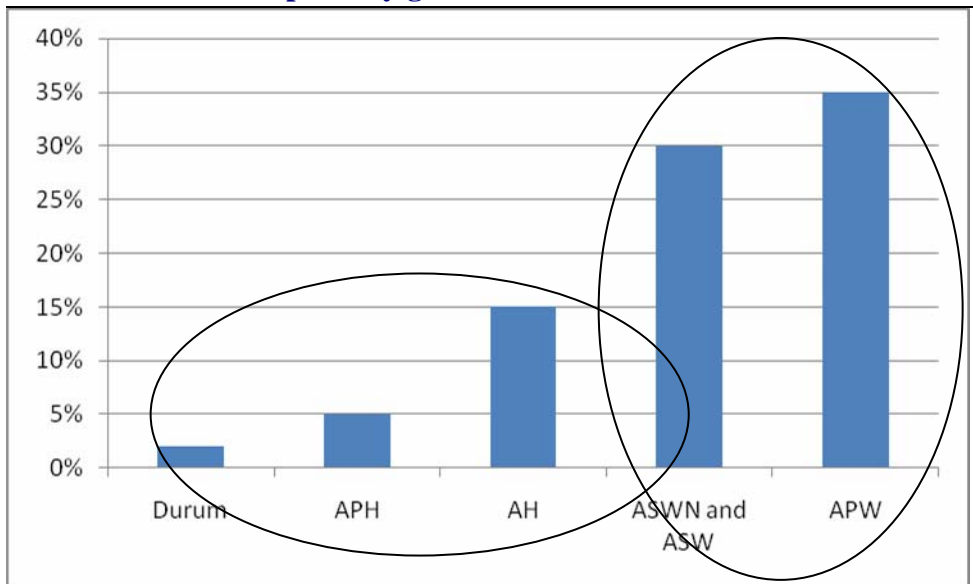
GGA is in a strong position and would be willing to play a role in the generic promotion of Australian wheat and grains in general for that matter.

#### **4.9 Branding**

*Industry participants should continue to brand their products as they see fit, in the knowledge that the generic Australian wheat brands (eg. APH as representing Australian Prime Hard) will be available for their use.*

GGA supports this recommendation. We expect that a feature of a future grain market in Australia is likely to be an increase in the number of speciality and niche wheat grades. As can be seen in Chart 4 below, at present the majority of Australian wheat exports are in two grades ASW (and ASWN) and APW.

Chart 4 **Wheat exports by grade 1999-2004**



*Data source: What the world wants from Australian wheat*

However, there is a trend that will see most grades of wheat continue to be broken down into a wider range of quality characteristics. This raises questions about the value of the current classification related brands, such as APW, APH etc. These brands are increasingly becoming generic and possibly of less value to customers, as they require more specific quality specifications for each shipment.

The expansion of the container trade in Australia will provide a new means of preserving the identity of grain from paddock to consumer. It will make possible the commercial production of a wide range of highly specialised wheat varieties.

#### **4.10 Trade Advocacy**

*The Government should continue its current role in the negotiation of trade issues, with input from various industry organisations. No individual or organisation is precluded from making submissions or recommendations to the Government on trade issues and this should continue.*

*The wheat industry could consider whether a single representative body is required to put forward a unified view to the Government. However, this is a separate matter for the industry to consider as there is no such organisation currently providing this service.*

GGA supports this recommendation and expresses an interest in providing services to the industry in this area. We also note that the commercial companies and growers groups will continue to make direct representations to Government as they see fit and have every right to.

## **4.11 Regulatory Advocacy**

*No changes are necessary to the current arrangements. Representative industry organisations, companies and individuals will continue to make submissions and representations where they deem it necessary.*

GGA supports this recommendation and expresses an interest in providing services to the industry in this area. We also note that the commercial companies and growers groups will continue to make direct representations to Government as they see fit and have every right to.

# **5 Other areas not considered by the IEG**

## **5.1 Building industry capacity**

To be able to technically support Australian wheat in the manner described in the preceding section, any new organisation will need access to highly skilled grain industry scientists and technicians. This will also be the case for the rest of industry, which is unlikely to have the incentive to invest in this area.

There are two reasons why industry may not invest in human capacity in the grains industry:

- Human capital is largely non-excludable, that is scientists and technicians are largely free to work for whom they choose, unless they are bound by long-term contracts, which are not common.
- Many companies, all but the largest, do not have the financial capacity to make such long term investments, particularly when there is no certainty of capturing the returns.

Thus there is likely to be significant underinvestment in grain industry skills and technical capacity. To correct this, investments need to be made to establish grain technology courses, and attract students in grain science and technology careers.

Examples of activities in this area include:

- the establishment of post graduate grain science and technology scholarships
- the establishment of a dedicated place for grain science and technology undergraduate and post graduate lecturers and supervisors, in major Australian universities
- the production of a number of vocational courses and associated material for the grain industry and international customers



## 6 Concluding remarks

The wheat industry continues to move through some complex restructuring in the wake of the Cole Inquiry and the implementation of the policy of new Government to at least partially deregulate the wheat industry. These changes are forcing other flow on changes to the industry and it is important that the industry servicing functions can move seamlessly to their natural providers within this transition period. We recognise and appreciate the work of the Industry Experts Group in its efforts to identify the services that will be required under the new regime and those groups' best placed to undertake these functions.



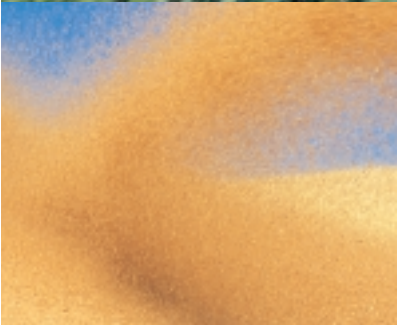
# What the World Wants from Australian Wheat Growers



An independent study of new opportunities for Australian wheat growers on export markets

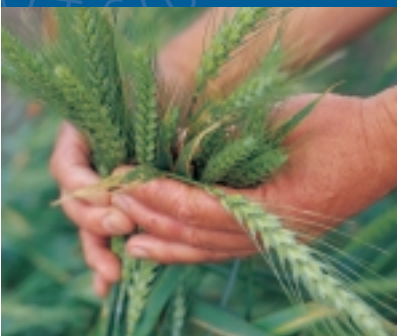
INDEPENDENT  
EXPORT  
MARKET STUDY





This report is a summary of the investigations carried out by independent consultants Bowman Richards and Associates, BRI Australia and former Food SA executive Brian Hansen.

DEPENDENT  
EXPORT  
STUDY



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## Chairman's foreword

Central to the Grain Growers Association charter is the provision of independent information about the grains industry to empower Association members to make better decisions for their farm businesses.

Food South Australia (Food SA), the South Australian Government's food industry development agency, is developing market intelligence on world wheat markets to assist South Australian grain growers get better returns for their wheat.

With these shared goals, Grain Growers Association and Food SA jointly funded a research project into how world wheat markets are changing, how Australian wheat is being used in various market segments and where future opportunities and challenges might exist for the Australian wheat industry.

This report is a summary of the investigations carried out by independent consultants Bowman Richards and Associates, BRI Australia and former Food SA executive Brian Hansen.

The report, and its references to Australian wheat varieties, export grades and end uses is directly relevant to grain growers in all Australian states.

Grain Growers Association is providing you a copy of this report as the first in a series of reports to help you build your knowledge of how Australian wheat is used on world markets.

This research project will assist Grain Growers Association guide the work of our industry researchers, wheat breeders and marketers to encourage the Australian wheat industry to focus on how we can move with world wheat markets and ensure the best return for growers.

A handwritten signature in black ink that reads "Ronald Greentree". The signature is written in a cursive, flowing style.

**Ron Greentree**  
CHAIRMAN

The 'What the World Wants from Australian Wheat Growers' report is a summary of a major research project carried out by independent consultants on behalf of Grain Growers Association and Food South Australia.

This report focuses on Australia's most important wheat markets in the Middle East, Japan and South East Asia.

The report authors met with Australian export wheat customers and end users in these markets as part of their research. They also drew extensively on data from these markets, markets in other developed and developing countries and product data from Australia's competitors in international wheat markets.

The report provides a summary of the key findings from the research project, an analysis of the world wheat market and a review of how Australia's wheat industry is placed against our international competitors.

### **Global consumption of wheat has doubled in the past three decades**

But while consumption has outpaced production over the past four years, production is expected to exceed consumption in 2004/05.

### **Australian wheat holds an enviable place in world wheat markets based on its clean, dry and white characteristics**

Australian wheat has a high level of versatility that sees it blended with other wheats to provide a range of flours for use in noodles, bread and bakery products.

Compared to its competitors, only a small proportion of Australia's wheat exports (APH) rates as high protein wheat on global markets.

Outside the noodle market segment, Australian wheat is primarily used to blend with other wheats.

### **World wheat markets are changing**

Consumer preference and spending power is increasing demand for different styles of noodles and breads in Middle Eastern and Asian markets.

The quality requirements in some markets are presenting opportunities for Australia's competitors to seize additional market share.

### **Australia's competitors on world wheat markets have strategies in place to exploit market opportunities**

The promotion of sponge and dough baking methods in Asia and the Middle East is presenting new opportunities for US and Canadian wheat exporters as demand for bread products grows. Australian wheat is not suited for the sponge and dough baking process.

Both the US and Canada are developing new dual purpose hard white wheat varieties that will target both the noodle and growing bread markets.

### **New competitors are emerging**

Cost pressures on millers are providing opportunities for new suppliers, including India, to gain a presence in markets important to Australia. Millers are seeking to blend cheaper commodity wheats from emerging sources such as India with higher quality wheats to meet flour quality specifications for a lower cost.



## Market profile: Japan

- Japan is a mature and stable wheat market and imports all its wheat from Australia, Canada and the US.
- It has a high per capita consumption of wheat compared to other Asian countries at 45 kg per head.
- The market for wheat has remained at around six million tonnes for several years. Demand for bread and noodles remains constant.
- It imports predominately high protein wheat and some soft white wheat.
  - APW is preferred for use in ramen noodle production and is rarely blended.
  - ASWN is used in yellow noodle production.
- Wheat based foods account for over 10 per cent by value of the food processing sector.
- Wheat is used in a range of applications including:
  - Bread (33%)
  - Noodles (27%)
  - Confectionery/biscuits (10%)
  - Retail sale/household (2%)
  - Other including premixes (28%)
- The market for noodles (cup and instant) was estimated to be 5.33 billion servings in 2003.
- The noodle market in Japan is discerning and has very specific quality requirements.
- Growth in the bread and pastries sector has been stagnant. This reflects economic conditions, which has led to an increase in at-home dining and reduced consumption of non-essentials.
- The Japanese bakery market is moving more towards pan breads, with 70 per cent of the bread market now white pan bread. While industrial bread production continues to dominate, there has been rapid growth in hot bread shops and in-store operations.
- Production of biscuits and cookies has been increasing despite falling demand for soft-type biscuits.
- Japan imports flour and a range of finished wheat based products including pasta, noodles, sweet cookies and frozen dough.

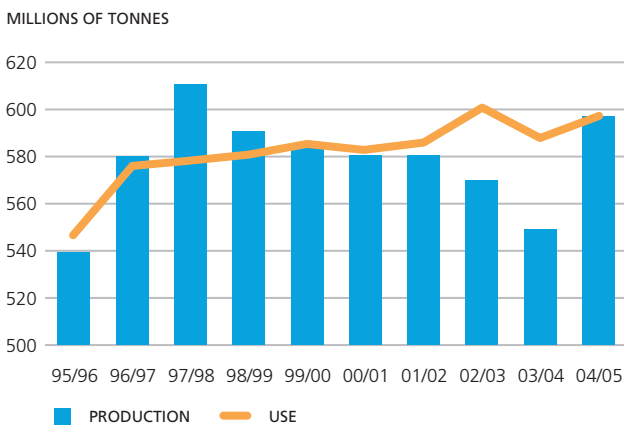


## Section 2

# The wheat market at a glance

- Global consumption has doubled in the past three decades. Consumption has been outpacing production over the past few years, however, this is expected to reverse for the first time since 1999/00 in the 2004/05 season.

**FIG 1. GLOBAL WHEAT PRODUCTION AND USE**  
(Source: US Wheat Associates)



- Human consumption accounts for 75 per cent of wheat use. Usage for food based products is expected to grow as per capita consumption in developing countries increases.

Per capita consumption ranges from less than 40kg per head to 150 kg per head.

Many of the developing countries, in particular in Asia, have the lowest levels of per capita consumption. FIG 2. shows the total wheat usage and per capita consumption of the countries visited as part of this study and demonstrates the spread in consumption patterns. Egypt is a traditional wheat consumer and has a very high level of per capita consumption, the US is reflective of western developed countries and Asia ranges from the mature markets of Japan to the developing economies of Indonesia where the shift from traditional foods is still in the early stages (see market profiles on pages 3, 9, 10 and 15).

**FIG 2. PER CAPITA CONSUMPTION OF WHEAT**  
(Source: Bowman Richards and Associates)

COUNTRY	TOTAL WHEAT USAGE (MILLIONS OF TONNES)	PER CAPITA (KGS)
UAE	1.0	88
Egypt	11.2	129
Japan	6.0	45
Thailand	0.6	12
Indonesia	4.0	14
Malaysia	1.3	32
US	32.6	88

Rice remains the staple food in many Asian countries, although consumption of wheat-based foods is increasing rapidly as noodles become a staple food and the consumption of baked goods increase. For example, wheat based noodles and baked goods are now the second and third most important staple foods in Indonesia. Across South East Asia, market growth has been driven by the rapid expansion of demand for wheat flour noodles, widening distribution and broader based consumption of bread, cakes and other bakery products and a rapidly developing fast food sector. The fast food industry has been a driver of growth for wheat foods and has significantly changed eating habits.

The disparity in per capita consumption across different markets demonstrates the substantial growth potential that exists.

- Wheat imports tend to be fragmented with only five countries importing more than five million tonnes.

In contrast, wheat exports are highly concentrated with the top five exporters accounting for almost 80 per cent of trade. The US is the largest exporter at around 26 per cent of total exports.

The trade environment has become increasingly competitive, with the non traditional exporters (e.g. India, Kazakhstan, Russia and Ukraine) having a significant impact on the market. The share held by the non traditional exporters peaked in 2002/03, accounting for 38 per cent of exports.

- The bulk of world wheat exports fall into the medium to low protein range. The premium end of the market represents less than 20 per cent, with the US, Canada and Australia dominating this trade.
- Australia's premium grade (Australian Prime Hard) accounts for only 5 per cent of Australia's exports, while Hard Red Spring/Dry Northern Spring accounts for just over 20 per cent of US exports and Canada Western Red Spring 13+ per cent accounts for 25 per cent of Canada's exports.

## The Wheat Value Chain

- The wheat value chain is undergoing change due to a number of underlying drivers including changing consumer demands, integration across the chain and economic pressures.
- FIG 3. shows some of the trends occurring at each stage along the wheat value chain.

FIG 3. THE WHEAT VALUE CHAIN (Source: Bowman Richards and Associates)

RAW MATERIALS	ORINATION AND TRADING	MILLING/ SEMI FINISHED PRODUCTS	FURTHER PROCESSING (FOOD PRODUCTS)/ CONSUMER MARKETING COMPANIES	CONSUMERS
<p>Suppliers face choices and competition in the various market segments, i.e. commodity price based markets versus differentiated quality focused market segments where the purchase decision is quality/functionality based.</p> <p>As suppliers move between these segments a number of issues increase in importance including quality specification, reliability, technical/market support, relationships, traceability and identity preservation.</p>	<p>This sector of the value chain has been characterised by consolidation to gain value through economies scale and cost reduction.</p>	<p>Over capacity in the global flour industry due to increased milling capacity and reducing tariff barriers on imported flour.</p> <p>Increasing customer differentiation, but cost pressures are leading to practices such as freight consolidation, global sourcing and blending.</p> <p>These pressures have seen sectors seek to use the minimum number of raw material lines for maximum flexibility in end products and minimum cost. The sector tends to purchase small volumes of specific quality products to add value to the larger quantities of commodity product purchased and blended to out-turn required end products. There is an increasing use of additives to enhance functionality.</p>	<p>Differentiation and innovation is most evident in this part of the value chain.</p> <p>There is an emphasis on value added as companies search for new and innovative products with a focus on convenience, safety and branding.</p> <p>Innovation is focused on new products that deliver a point of difference on nutrition, taste and other characteristics.</p> <p>There is increasing investment in brands and some internationalisation of brands and products although this has been largely restricted to the biscuits sector.</p> <p>Issues such as safety and traceability are becoming increasingly important, with a focus on processes and product quality.</p>	<p>Consumers are becoming more demanding with respect to taste and quality. Consumer needs can be summarised as convenience, fresh, safe and healthy, value for money and variety.</p> <p>Consumers are seeking nutritional solutions that are easier and enjoyable.</p>



# End uses for wheat on global markets

This section examines the quality characteristics that determine the end uses for wheat on global markets and how particular end use segments are evolving.

Wheat protein and the quality of the wheat protein has played a central role in wheat classification in global markets.

FIG 4. shows the main classifications of wheat in global markets.

FIG 4. MAIN WHEAT CLASSES OF MAJOR WHEAT EXPORTING COUNTRIES

	AUSTRALIA	U.S.	CANADA
High protein wheat >13%	APH	HRS (includes DNS), HRW	CWRS, CWES
Mid protein wheat	AH, APW	HRS, HRW	CWRS, CWRW, CPRS, CPSW
Low protein wheat	ASW	SRW	CPSW
Soft wheat	Soft	SRW, SW, WW	CWSWS
Durum wheat	Durum	Durum	CWAD

While protein is central to classification, other quality characteristics important in determining end use include stability, extensibility, colour and starch properties.

As markets become more mature, the way wheat performs in end use applications becomes an increasing focus of quality requirements. Performance in end use applications is described as functionality.

The form in which wheat is consumed varies by country and region, although this is changing as the world becomes smaller and tastes and food styles become more global.

Inherent quality characteristics mean different wheat types better suit specific end use applications. FIG 5. outlines the relationship between wheat protein and various end uses.

## END USE SEGMENTS

In increasingly globalised world wheat markets, analysing markets by end use, rather than by country, provides more meaningful insights.

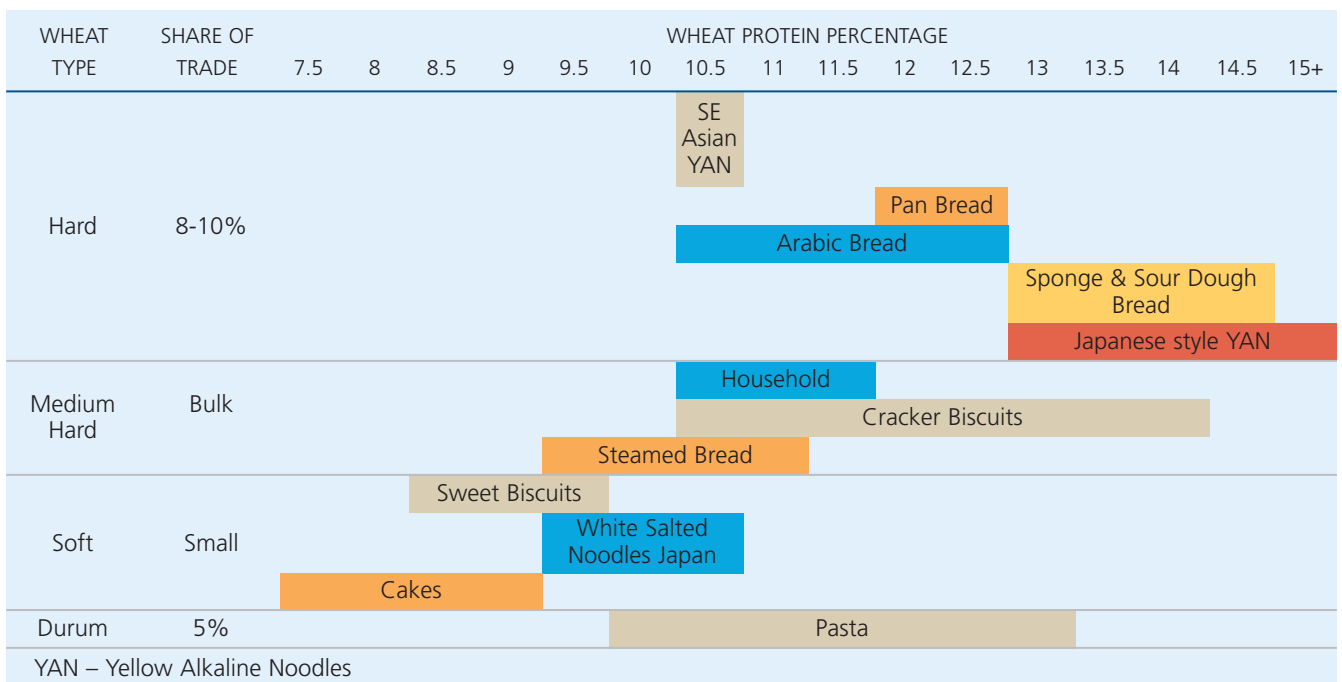
The following section examines the noodle market sector, the bread and bakery products sector and the emerging functional foods market sector.

## Noodles

Noodles have been a major growth area for wheat as consumers across Asia have increased consumption of wheat based noodles. While rice remains the staple grain consumed across Asia, the growth in noodle consumption has been substantial, particularly instant noodles.

FIG 5. WHEAT QUALITY CHARACTERISTICS AND END USE

(Source: Bowman Richards and Associates)



It is estimated that over 13 million tonnes of wheat was required to produce the 54.7 billion units of instant noodles that were consumed in 2002. Over three quarters of this demand occurs in Asia. The per capita consumption of instant noodles in various Asian countries highlights the further potential for growth in this area, particularly in China where per capita consumption is significantly lower than other Asian countries.

**FIG 6. INSTANT NOODLE CONSUMPTION IN ASIA**  
(Source: International Ramen Manufacturers Association)

	ANNUAL SERVINGS (BILLION PER COUNTRY)	SERVINGS PER CAPITA
China	17.8	14
Indonesia	9.9	46
Japan	5.7	45
South Korea	3.9	82
Philippines	1.5	20
Thailand	1.4	22
Vietnam	1.1	14
India	0.18	0.2

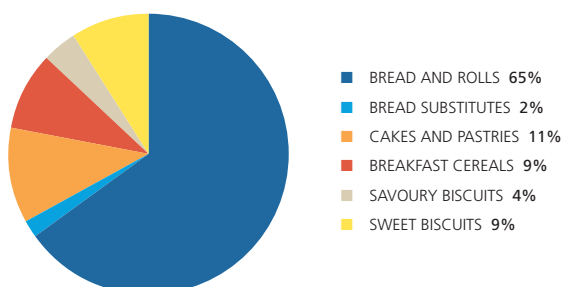
Approximately one third of Australian export wheat is consumed in the form of noodles of one type or another. This represents about \$800 million worth of wheat on an average crop of 15 million tonnes.

Australian wheat is preferred for making most noodle types and demands a high market share because noodles made from Australian hard white wheat are superior at maintaining their colour stability and have appropriate starch quality. Both Canada and the US are trying to develop suitable hard white wheat varieties for the Asian noodle market.

### Bread and Bakery Products

The global bakery market is estimated to be valued at \$270 billion and has been growing by around 5-10 per cent annually. Bread is the dominant sector of the bakery market accounting for around 65 per cent.

**FIG 7. BAKERY PRODUCT VOLUME SALES**  
(Source: Rabobank)



Across Asia, the bread sector is growing reflecting the move to more westernised consumption patterns, that is, greater emphasis on convenience and increased consumption of fast foods.

Consumption is being driven by growth in the fast food sector and increased use of sandwich breads and pastries as consumers in these countries also seek convenient products.

Sandwich bread tends to be the largest segment, with other common products being filled buns and rolls, and smaller specialty segments such as flat breads and whole grain breads.

In the developing Asian countries, consumption of bread and bakery products tends to be by the higher income segments of the population and in urban areas.

Across Asia, the 'Sponge and Dough' method (see Box A) tends to be the most common method of making bread. This process produces a very soft Asian-style bread and the taste created through the fermentation process is preferred. High levels of fat and sugar are used in the baking process.

In Australia, bread is produced using the 'Rapid Dough' method (see Box A). This produces a blander and firmer bread. It is unlikely that manufacturers in Asia will switch from the sponge and dough process in the short to medium term.

Sponge and dough method requires high protein and high stability wheat, which is not a typical characteristic of Australian wheat varieties.

#### BOX A.

##### **Sponge and Dough**

The sponge and dough process is used in the US and many parts of Asia. This bread making method is different to the rapid dough method in that it requires 2 mixing stages and has a 4.5 hour fermentation time. This variation in processing means that it also has different wheat quality requirements to that of the rapid dough method. Stronger wheat types are favoured for the sponge and dough method. The process takes up to 6.5 hours from the commencement of mixing to the completion of baking.

##### **Rapid Dough**

The rapid dough process is the most popular bread making process in Australia. This method relies on the mixer to complete the development of the dough and does not include extended fermentation times. The process takes approximately 2 hours from the commencement of mixing to the completion of baking. Australian white wheat is suited to this process.

## Section 3 End uses for wheat on global markets (continued)

The predominant form of bread consumed across the Middle East is flat breads. This segment is an important market for Australia, with up to 40 per cent of Australia's wheat exports processed for flat bread production with major markets being Egypt, Iran, Iraq and the Gulf countries.

There are many types of flat bread consumed in the Middle East and an even greater number of naans. Two layered pocket breads are perhaps the most common in the Middle East, while single layered products dominate the Iranian and sub-continent markets. Flat breads have been baked and consumed as a staple food for many centuries. The more popular breads are baladi and tanoori – see Box B.

### BOX B.

**Baladi** is a two layered flat bread which is the traditional bread consumed in Egypt. It is made from flour of high extraction (82 per cent), yeast or sour dough, salt and water. The baking (or water) absorption is high (up to 75 per cent), which has made this bread difficult to manufacture under automation. Although this bread accounts for up to half of Egypt's flour consumption, it is still produced by hand.

**Tanoori** is a single layered flat bread consumed in the Gulf countries, Iran, Iraq and Syria. Holes are made in the sheeted dough prior to baking to prevent separation of layers during baking and are also regarded as decoration. The production of this bread has been successfully automated.

### Functional Foods

The functional food market is one of the fastest growing food sectors today and is estimated to be valued at over \$US60 billion. A functional food is a product that is similar to conventional food and consumed as part of the normal diet but which has demonstrated health benefits beyond basic nutritional functions. Australia is a very small player in this market with the functional foods market in Australia/NZ estimated at only \$0.7 billion compared to the US and Europe at \$18.5 billion each and Japan at \$19.5 billion.

Functional foods can include simply the addition of a function ingredient into an existing traditional food product, for example fortification and/or emphasising existing nutritional features in products such as whole grains or it can be the creation of a new food.

Increasing consumer health awareness is influencing the bakery products market. There is growing demand for wholegrain products, products with added functional ingredients such as soluble fibre and growth in low-fat, low-sugar and low-calorie variants of existing products.

The functional food market presents a small but high value market segment for wheat exporters.

### Key Market Trends

**It is evident that markets are changing and will continue to change as they become wealthier and more westernised. The key trends for the Australian grains industry to be aware of are:**

- Pan breads will become a more significant part of the market and the preference for sponge and dough breads is likely to remain in the medium term;
- The flat bread markets are likely to demand higher protein, more stable wheat as they become more quality conscious;
- The global wheat market is a conflicting mix of cost pressures on millers and bakers and increasing demand for quality and service. It is increasingly important for exporters to understand varieties and how they perform in end use applications; and
- Sourcing options have broadened and the market is now truly global with all origins in consideration. The entry of non traditional exporters have exploded 'quality myths' and there has been a significant and permanent shift in how millers source grain and the range of products used. The millers' purchasing dollar is now allocated between quality specific products and commodity wheat for blending, with millers seeking to minimise raw material costs and suppliers to provide the maximum flexibility for end product output.

## Market profile: Thailand

- Thailand is in the early stages of wheat market development, characteristic of many Asian markets where the trend to wheat based foods is beginning.
- It has a low per capita consumption of wheat, around 10kg per head, although is growing at 10 to 15 per cent per annum.
- The rapid recent market growth has been driven by the expansion of the demand for wheat flour noodles, the widening distribution and broader based consumption of bread, cakes and other bakery products and the rapidly developing fast food sector.
- Wheat is used in the following applications:
  - Bread and bakery (35%)
  - Noodles (30%)
  - Biscuits (10%)
  - Other including household use (25%)
- Thailand's use of wheat flour, is still low compared to other Asian countries such as Malaysia and Singapore due to it being less westernised in habits.
- Noodle consumption is growing at two to four per cent per annum, down from seven per cent three years ago. Consumption of instant noodles is still low compared to other Asian countries like Korea. The current taste profile of the noodles is tough, very elastic and sticky, however, this is shifting to softer, more tender and less elastic although still with a firm texture.
- Thailand imports all of its wheat from Australia, the US and more recently Canada. The US is the largest supplier.
- Thailand uses high protein wheat. Australian wheat is generally used as a blend in all purpose flour. Colour is expected to become more important.



# Implications for Australian wheat growers

## Emergence of Broad Market Segments across all countries

World wheat markets are diverging into three broad segments:

- Bulk commodity markets with price as the key driver;

- Discerning markets with a focus on price, functionality, quality and technical support; and

- Emerging novel and functional markets where the key focus is on quality and functionality.

(refer FIG 8.)

FIG 8. CHARACTERISTICS OF QUALITY SEGMENTS IN WORLD WHEAT MARKETS

(Source: Bowman Richards and Associates)

	NON DISCERNING/COMMODITY	DISCERNING/SPECIALTY	FUNCTIONAL/NOVEL
Size	This segment dominates across all markets and is expected to continue to do so into the future.	This segment has become more important as millers move to meet both cost and value demands of customers. It is expected to grow as the end users continually look at ways to enhance flavour, improve texture, enhance appearance, increase shelf life and improve health benefits.	This segment is starting to emerge and may be created through new raw materials; and/or processing technologies. It is a very small part of the market currently with most activity still in fairly unsophisticated products e.g. fortified products, high fibre, low carb. There is little by way of novel ingredients and products to date.
Nature of competition/ purchase drivers	Competition in this segment is price based, given that a minimum quality specification is met. Australia's APW and ASW performs effectively in this category and particularly in Asia holds the major market share. Beyond price, the important factors for buyers are versatility i.e. the ability to use across a range of end products (Australia's hard white wheat is an advantage) and consistency i.e. buyers have origin preferences based on experience with the performance of wheat.	Quality and functionality are the major criteria. Once quality specifications are established, competition becomes price based. However, millers will pay a higher value for the specific quality demanded such as high strength/ protein, high stability, etc. Australian wheat is very competitive in this segment in the noodle market and some niche markets like steamed breads. It has limited presence in the pan bread market.  Service and market support are also important, in particular, in terms of understanding new variety developments and changes in quality grades.	The functional foods segment is emerging as companies see health as one of the few ways to create growth in saturated or mature markets. Demand is increasing as consumers become more aware of how diet is linked to health. Functionality, quality and the ability to deliver a unique product to the market will be the basis of competition.  May be achieved through raw material modification/ enhancement; processing or use of additives.  There are few products in this category yet. Australia is working on potential products such as waxy wheat.
Propensity to change supplier	High This was demonstrated by the shift to Indian wheat in 2002/03. While buyers may have an origin preference, once the price spread moves outside of their limits, they will shift supplier.	Medium Buyers are less likely to change suppliers while quality requirements are met.	Unlikely to switch suppliers and supply is often via an alliance or other form of partnership arrangement.

## Market profile: Egypt

- Egypt is a traditional wheat consumer with a per capita consumption of 129 kg per head.
- It uses over 11 million tonnes of wheat annually, of which 55 per cent is imported from multiple destinations.
- Flat bread is a staple component of the Egyptian diet with Arabic bread accounting for 95 per cent of the market.
- Consumption of flat breads in Egypt is under pressure from substitutes such as rice and potatoes and increased use of domestically produced corn in subsidised Baladi bread.
- Flour milling in Egypt is highly controlled, although wheat imports have been partially deregulated. The General Authority of Supply Commodities (GASC) purchases wheat for the subsidised Baladi bread market and sources wheat widely at the lowest price. Wheat from all origins including Indian wheat and EU wheat is used.
- Private mills can import wheat outside of the GASC and this tends to be of higher quality.
- The US is the major supplier to the private sector due to perception that US wheat has better stability, better water absorption, a similar extraction rate and is more price competitive.
- Australia maintains a strong presence in the high end of the market through the AWB Limited's stake in Five Star Flour Mills.
- The advantage of US wheat is reduced in an automated system and this may assist Australian wheat as the market becomes more automated.
- The private mills produce a range of flour types using the spectrum of wheat proteins including high, low, low to medium and medium to high.



## Australia's position in the world market

### Snapshot of the Australian wheat industry

Australian wheat production has shown steady growth since the 1960's, but this trend has gathered speed with the decline in sheep numbers since the mid 1990's.

New South Wales and Western Australia are the major wheat producing states with each accounting for around one third of national production followed by South Australia with 16 per cent, Victoria with 12 per cent and Queensland with six per cent.

Australia produces only white wheat for export across a number of different grades catering for different markets.

- Australian wheat production is export orientated with around 75 per cent going to overseas markets.
- Domestic milling markets consume approximately 10 per cent of production or 2.3 million tonnes of wheat annually with nearly three quarters of this being for human consumption.
- Over 60 per cent of Australia's wheat is exported to six countries; Iran, Iraq, Indonesia, Japan, Egypt and South Korea. The remaining exports are more widely spread although freight proximity to Asia as well as the quality of Australian wheat means that a significant proportion is exported into Asian and the Pacific region markets including Malaysia, Thailand, Sri Lanka, Bangladesh, Singapore, New Zealand and Papua New Guinea. A number of the smaller Middle Eastern markets also regularly import Australian wheat such as Yemen, United Arab Emirates, Kuwait and Oman. Australia also exports a small quantity of durum wheat (one to four per cent of total exports).

Australian wheat grades, varieties, share of production and end use are shown in FIG 9.



FIG 9. AUSTRALIAN WHEAT GRADES, VARIETIES AND SHARE OF PRODUCTION. (Source: BRI Australia Limited)

GRADE	STATES GROWN	VARIETIES (2002/03)	PRODUCTION	PROTEIN	MARKETS	EXPORT USES
Australian Prime Hard (APH)	Qld NSW	Batavia, Baxter, Cunningham, Hartog, Kennedy, Lang, Strezelecki, Sunco, Sunvale Babbler, Chara, Cunningham, Janz, Strezelecki, Sunstate	<5%	13-14%	Japan, Korea, Thailand, Malaysia, Italy	Primarily used for Japanese style ramen noodles.
Australian Hard (AH)	Qld Northern NSW Southern NSW Victoria South Australia Western Australia	Batavia, Baxter, Cunningham, Hartog, Kennedy, Petrie H45, Kennedy, Strezelecki, Sunbrook, Sunstate, Sunvale Chara, Diamondbird, H45, Janz, Wylah Chara, Diamondbird, Janz, Meering, Yitpi Barunga, Janz, Kukri, Machete, Yitpi Blade, Carnamah, Cascades, Machete	15-20%	11.5%	Japan, Indonesia, Iraq, Malaysia, Middle East	Suitable for a wide range of baked products including European pan breads, Middle Eastern flat breads, Chinese steamed products and Chinese yellow alkaline noodles.
Australian Premium White (APW)	Qld Northern NSW Southern NSW Victoria South Australia Western Australia	Baxter, Cunningham, Giles, Hartog, Janz, Kennedy H45, Kennedy, Sunbri, Sunbrook, Sunstate, Sunvale Chara, Diamondbird, H45, Sunbri, Sunvale Frame, Janz, Kelalac, Meering, Mitre, Yitpi Camm, Carnamah, Frame, H45, Westonia, Yitpi Brookton, Camm, Carnamah, H45, Siletto, Westonia	30-35%	10%	Indonesia, Iraq/Iran, Malaysia, Other Asian & Middle Eastern countries, Japan/Korea	Suitable for production of a variety of Asian noodles. It is also suitable for Middle Eastern and Indian style breads and Chinese steamed bread.
Australian Standard White (ASW)	Southern NSW South Australia Western Australia	Chara, Diamondbird, H45, Sunbri, Sunvale, Janz & Whistler Excalibur, Krichauff, Trident & Worrakatta Westonia, Arrino, Cadoux, Calingiri, Carnamah	20-30%	9-10%	Indonesia, Iraq/Iran, Malaysia, Other Asian & Middle Eastern countries, Japan/Korea	Suitable for straight milling and blending purposes – typically in less discerning markets such as Egypt and Iran for Middle Eastern, Indian and Iranian style flat breads.
Australian Standard Wheat Noodle (ASWN)	Western Australia	Arrino, Cadoux, Calingiri		10.5%	Japan /Korea	Developed for use in noodle manufacture. Outside of this use, wheat is too soft so loses value, but can be blended in cargoes to the Middle East.
Australian Durum Wheat (Durum)	Northern NSW South Australia	Kamilaroi, Wollaroi, Yallaroi Gunderoi, Tamaroi, Yallaroi	<5%	Min.13% 11.5% & 10%	Italy, Morocco and Algeria	Pasta



## Section 5 Australia's position in the world market (continued)

### Australia's Current Market Position

Australia continues to hold a strong market share in its traditional markets.

Australian wheat is highly valued due to its low moisture, cleanliness and white colour. In terms of traditional quality segments based on protein, Australian wheat is:

- Most competitive in the medium protein segment for use in noodles, steamed bread or a blending wheat;
- A significant player in the high protein segment for noodles in Japan/Korea, but has little presence in the pan bread market; and
- A small player in the growing soft wheat market.

While the core quality values of dry, clean and white have been the basis for establishing Australia's strong position in the marketplace, investigations as part of the project uncovered a number of issues about the competitive position of Australian wheat on world markets. The areas that Australia needs to continue to focus on to maintain and improve its competitive position – volume and value – in the marketplace are set out in the following points.

#### 1. Build on the core advantages of low moisture, cleanliness and whiteness

Consistent supply and quality has been a strength for Australian wheat, but this is beginning to be questioned in some areas.

Issues that were highlighted during the study (primarily with commodity grades – ASW and APW, but also AH to a lesser extent) include:

- Protein is more variable;
- Colour is more yellow; and
- Less uniformity in relation to admixture/screenings and kernel size.

The development of North American hard white wheat is a new challenge. Current perceptions of North American wheat is that it has strong dough characteristics, acceptable colour and reasonable (improving) colour stability. It is expected to be versatile i.e. suited to noodles and bread.

Outside of the noodle market, Australian wheat is primarily used to blend with other wheats. Many markets noted that Australian wheat has been 'the wheat of choice' due to its lighter colour and higher yield, despite it being more expensive. However, strong competition from other sources is eroding this position in the commodity part of the market.

The significant price spread between Indian wheat and other wheats in 2002/03 saw this used in most markets. While Indian wheat is seen to be lower in gluten, stability and extensibility, it has high mixing tolerance and good strength. It has been successfully used in blends up to levels of 20 per cent or more. Even though some additional cost is incurred through the necessary use of additives. The competitive pricing offsets this. It has not been well accepted by all markets, however, it will be used at a price and will compete with Australian ASW and APW.

#### 2. Increase share in the bakery market in Asia and the Middle East (based on sponge and dough process and some flat bread production)

Australian wheat could increase its presence in the higher value pan bread market in Asia and Middle East if it had varieties better suited to sponge and dough bread. The weaknesses of Australian wheat are lower protein and poor stability. In contrast, US and Canadian wheat were seen as highly suited to the bakery market, in particular, Dry Northern Spring (DNS) wheat. Australian wheat is mainly used in the all-purpose flour segment or for blending.

#### 3. Continue to develop an understanding of the performance of varieties in different end use applications

The competitive landscape has and is changing and there will continue to be more emphasis on functional quality in addition to physical quality requirements. This will require more focus on end product performance and working closely with customers in assessing varieties and suitability to end uses.

#### 4. Maintaining an active presence with technical services and market support

There is likely to be increasing focus on varieties reflecting the concern on end product performance. Australia's competitors have moved to put in place relationships and support to build knowledge of end product performance. In particular, the US is viewed as having moved aggressively to address the traditional perceptions of it as a residual supplier of fair average quality. Several markets noted that the US suppliers could now offer the 'full shopping basket of the quality range'.

The delivery of technical support by the various suppliers to the market is via different mechanisms depending on the industry structure in that country. The Australian wheat industry needs to ensure that it has the technical and market support that both supports current sales and develops access to future opportunities.

## Market profile: Malaysia

- Malaysia is an emerging market with a per capita consumption of 32kg per head.
- It imports between 0.9 – 1.2 million tonnes of wheat per year of which 800,000 tonnes is used in food, the remainder in feed.
- Wheat is used in a range of applications including:
  - Bread and bakery (20%)
  - Noodles (40%)
  - Biscuits (20%)
  - Steamed breads (5%)
  - Other uses including household (15%)
- Bread sales are mostly in loaf/sliced bread and growing. The largest sector is sandwich bread followed by filled buns then straight buns. Bakeries are generally small and locally owned although all big industrial bakeries use the sponge and dough method and needs a very strong wheat. The flat bread segment is growing.
- Cakes and biscuit sales are approximately twice the value of bread sales. The biscuit sector is based around large-scale operations that are targeting export markets.
- Australia holds the dominant share of the import market, although this is declining. Canada is the second major supplier and increasing. The US holds a minor share.
- Competition Australia faces comes from the availability of cheaper wheat from other countries, notably India. Canada is producing a dual purpose variety suitable for noodles and bakery to compete with Australian wheat in noodles and there is developing interest in hard white wheats from North America.



## Section 6

# Opportunities and challenges

The key trends in the world markets that impact on Australian growers are:

- Pan breads will become a more significant part of the market in the medium term and the preference for sponge and dough breads is likely to remain in the short to medium term;
- The flat bread markets will demand higher protein more stable wheat as they become more quality conscious;
- The market is a conflicting mix of cost pressures and increasing demand for quality and service. It is increasingly important to understand how varieties perform in end use applications to maximise value; and
- Sourcing options have broadened and the market is now truly global with all origins in consideration.

Asia should be the focus for future growth given the huge opportunity for further increases in per capita consumption.

A major part of this growth will be in noodle consumption and Australian wheat is favoured for this application.

However, the dominant use of sponge and dough bread making techniques in the growing bread market in Asia and the Middle East has allowed US and Canadian wheat to gain access to traditional Australian markets. The sponge and dough method is actively promoted by the US wheat industry.

Responding to competition from US and Canadian wheat in Asian and Middle East markets, and from emerging commodity wheat exporters including India, presents a major challenge.

By understanding the range of markets and their characteristics, and aligning our breeding, agronomic and marketing strategies with market needs, the Australian wheat industry can find new opportunities.

At the same time, Australian growers need to keep the focus on maintaining core quality values of Australian wheat.

Grain Growers Association will work with all sectors of the Australian wheat industry to assist growers to capture opportunities in the changing global marketplace.

Specifically, Grain Growers Association will work with growers, breeders and marketers to:

- Ensure Australia maintains and enhances its position through protecting core/intrinsic values of Australian wheat;
- Increase share in bread markets through focus on developing varieties and segregations to target the export bread market; and
- Promote opportunities in segments such as soft wheat and durum where there is growing demand.

This will require industry investment in research and development which:

- Develops collaborative projects that can investigate the ability to utilise Australian style wheat;
- Improves understanding of functionality and end product performance;
- Provides comparative analysis of competitor products; and
- Develops functional foods.

This project is part of Grain Growers Association's goal of improving information flow between breeders, growers and the market place.

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1 RIVETT ROAD, RIVERSIDE CORPORATE PARK, NORTH RYDE NSW 2113



Grain Growers Association has produced this report to help you build your knowledge of how Australian wheat is used on world markets.

Its references to Australian wheat varieties, export grades and end uses is directly relevant to grain growers in all Australian states.





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