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Submission in Response to:

Ensuring a Profitable and Sustainable Agriculture and Food Sector in Australia – Issues for Consideration – May 2005

The Flour Millers Council of Australia (FMCA) is an industry association representing the interests of flour milling companies in Australia.

There are currently 27 flourmills in Australia spread across all States and situated in both metropolitan and country areas.

Australian flour millers produce 2.1m tonnes of flour per annum (2.135m tonnes 03/04 Source: ABS) up 41% from a decade ago. About 8% of this is exported.

Wheat is our obligatory raw material. Unlike other end users, we do not have the luxury of being able to substitute other grains. The flour milling industry therefore has a vital interest in the sustainability and profitability of Australian agriculture.

Domestic uses of our wheat crop accounts for 25% of the typical crop year in, year out.

On a regional basis, the domestic market is even more significant. Most of the WA and SA crop is exported, but in the other States domestic consumption is higher and the crop smaller. The domestic market requirement in the eastern states of QLD, NSW and VIC is 45% of the wheat crop in those states, leaving 55% for export.

Millers produce a range of flours to meet the various, yet very specific, quality requirements of our customers. To do this, they need to source a range of wheats and then blend them to produce the particular flour characteristics demanded by each customer.

Miller's basic objectives in relation to wheat supply can be summarised as follows:

Access: Reliable access to the range of wheats.

Supply: Reliable supply of all grades throughout the year, and season by season.

Quality: A sufficiently wide spread of varieties and grades and homogeneity within grades. Ultimately, wheat quality is dependent on appropriate measures being taken at each of the following stages: wheat breeding, planting decisions, segregation by protein and other quality attributes, segregation by variety (variety being the main determinant of protein quality).

Millers believe that our basic objectives in relation to wheat supply – access, supply and quality, will be met best by having a strong Single Desk for wheat in Australia.

Supply: In years when there is a regional crop failure, the current system is more likely to provide a coordinated approach to ensuring wheat supply to the domestic millers. Essentially, this means priority of access vis a vis export.

Breeding and Release: AWB has a strong quality focus with a major influence on the quality objectives of wheat breeders. While these objectives do not always match those of Australian millers, the general direction is similar. The quality requirements of the customer must be heard and a long term view taken by the breeder. There is a concern that the loss of the Single Desk could lead to a less cohesive mix of end user quality traits, and that agronomic traits would dominate.

Receival Standards: The AWB Receival Standards set a benchmark for the industry which to date, by and large, has served us well.

Grades: The grades of wheat determined by the AWB again set the benchmark for the industry. However, increasingly millers are needing to ensure the varietal integrity of their receivals for at least a portion of their requirements.

We make reference to the major policy issue of Single Desk as this also represents a significant barrier to industry growth in export flour markets. The flour milling industry represents the link between grain as produced by the grower and the food manufacturer who requires specification flour produced from the grain. The flour milling industry is therefore dependant on the demand of the food manufacturer for growth domestically. The opportunity to seek export growth is limited since the cost of wheat to domestic millers is effectively linked to the international wheat price due to the AWB Ltd as an exporter required to establish payment based on ruling international pricing. Domestic Millers therefore must pay for wheat at AWB pool prices plus to secure the necessary wheat qualities. To sell flour into the international market from this cost base is not possible whilst the international wheat and flour market is corrupted and Australian Flour in most circumstances cannot be competitively priced. Domestic support and subsidy policies by other foreign countries effect our ability to be competitive in most export markets for flour.

We therefore support every policy initiative for trade reform which will enable Australian food products, (some using flour), and flour exports to be competitive in the international market.

We have been a long term and reliable contributor to the Australian Government aid package. For the past several years this small volume has diminished as aid recipient countries apparently prefer grain as aid rather than flour. This is clearly an additional loss of trade for the flour milling industry. This reflects lesser value adding to product going out of the country and should be seen as detrimental to Australian interests.

We support initiatives that will assist Australian food manufacturers to improve their competiveness through productivity, innovation and value adding opportunity.

We recognise the dilemma of biotechnology and the introduction of GM technology. The risk of farmers being placed at competitive disadvantage is a major concern and threat to both the agricultural and food industry sectors. Consumer acceptance cannot be dismissed and apparent resistance remains a barrier. Our view is that policy should support continued research and development of GM technology so that competitive ground is not lost whilst further initiatives and demonstration are undertaken to gain wider community acceptance. It is unlikely that Australia can keep GM foods out of the supply chain, this is already the case. We support agricultural research initiatives which we believe can be more responsive and relevant to industry by providing whole of value chain perspective. We recognise the importance of adequate research funding if our agricultural and food sectors are to remain sustainable, competitive and continue to make available new opportunities.

We support Government initiatives which support our agricultural and food industries through appropriate risk management in areas of food safety, biosecurity and quarantine.

We support a role for Government leadership in matters of infrastructure which are vital for sustainability of agricultural pursuit, especially those which can help alleviate major seasonal variation in farm income. In Australia the consistent supply of water is a major limiting factor for agricultural output.

We like other parts of the agriculture and food chain require an ongoing supply of suitably trained and qualified people in the workforce and support initiatives to maintain an adequately skilled and qualified workforce particularly in rural centres.

We recognise the need to support and encourage niche industries as they work to develop the critical mass necessary to achieve viability. Increasingly future opportunity will rest with new agricultural pursuits and new food or industrial products. Consumer choice will continue to recognise diversity and difference in the products they choose. The balance of supply and demand of raw material is difficult with new industries and supply chain cooperation is vital. An example of this is the organic industry.

We recognise the need for strong Government support and leadership in the aspects identified and equally that this should be by encouraging innovative business practices in partnership with industry with minimum of bureaucratic cost and interference. In common with the agricultural sector the Flour Milling industry is one of low margin and therefore costs are a major consideration. It is necessary to continually improve every aspect of the industry supply chain to ensure that costs are restrained or reduced if possible. The evidence suggests that the price paid for our products are more likely to reduce than rise.

GRAEME LUKEY
Executive Director

15 July 2005