

Submission to
The Agriculture and Food Policy
Reference Group

Grain Growers Association Ltd

July 2005

Introduction

Grain Growers Association Ltd (GGA) was established in 1958 as the Premium Wheat Growers. Since that time, the GGA and its predecessors (Premium Wheat Growers, Prime Wheat, Hard and Soft Wheat Growers Association and Prime Wheat Association) have actively promoted the interests of growers and worked to ensure that its members' businesses are profitable within a changing supply chain.

From an organisation established to assist growers obtain a better return from producing customer focused products, GGA has evolved to be a broad based grower representative organisation. Through various mergers and its association with Graincorp, the organisation has expanded from a core base of growers in northern NSW to now encompass NSW, Victoria and Queensland.

Recent activities of the Association include a case study on rail branch lines in NSW, an export wheat market study, grower capacity building in grain marketing and Intellectual Property Rights, a lecture tour by a senior agriculture policy maker from the European Union, substantial sponsorship of the National Farmers Federation Trade Policy Strategy and participation in the Single Vision Strategic Plan for the grain industry.

Key Comments

Given our core areas of expertise, Grain Growers Association Ltd is able to submit on some key policy areas:

- The declining competitiveness of Australian wheat grades.
- The importance of the adoption and application of new technologies to our cropping systems.
- Greater security of title to privately held land and workable regulation on access to waters and management of native vegetation.
- The importance of solving country infrastructure problems, particularly rail infrastructure that the grains industry depends upon.
- The necessity for Australian farmers to continue up-skilling to engage with a competitive and open global trade environment.

Competitiveness of Australian Agriculture and Food Businesses

As Australia is predominantly an exporter of much of its agricultural produce, striving to remain competitive on a global scale is simply a fact of running a business. As trade liberalisation continues to take place, markets are expected to become more contestable.

The demographics of a number of populous developing countries are expected to increase demand for agricultural products. As more people around the world are lifted out of poverty, they have greater capacity to add to their diet red meat, dairy products and specialty baked products. Australia's export industries are well placed to supply many of these products but must continue to react to market demands.

The Grain Growers Association is well placed to comment on two topical issues within Australian agri-business; the export wheat industry and the potential for on-farm productivity gains by the application of genetic manipulation.

International Consultancy - Australian Wheat Performance

Unlike virtually every other grain producer representative group in Australia, Grain Growers Association Ltd has the resources to study some of the dynamics of the international grains industry and recently took the opportunity to do so.

In late 2003, Grain Growers Association in conjunction with Food South Australia, commissioned a Wheat Market Intelligence Project to assess the performance of Australian wheat grades in a number of overseas markets. In April and May, 2004, three independent experts travelled to a number of countries that are consumers of Australian wheat to gauge from end users, the performance of Australian wheat grades and how they compared to competing origin wheats.

Most of the findings of the consultancy were released in the public report, 'What the World Wants from Australia Wheat Growers,' in July 2004.

There was a confidential version of the report that has not been released. It has confidential information from a number of flour millers that buy wheat from Australia that requested anonymity.

The Australian wheat industry has been characterised as a reliable supplier of hard white wheats that are clean, low in moisture and thus deliver high milling yields. These qualities have been responsible over many years for establishing Australia's place in the market.

The attached copy of the Confidential report details the problems Australian wheats are facing. '

What the World Wants from Australian Wheat Growers - Confidential Version

In summary these are:

- 1) Reduced suitability to the bakery sector. The style of bread preferred by many of our customers in Asia and the Middle East is produced using the sponge and dough baking method. The majority of Australian wheat is not suited to the sponge and dough technique.
- 2) Increasing variation in quality. A general perception exists across the markets visited that Australian wheat quality is becoming more inconsistent, particularly in ASW and APW. Many buyers were concerned that variation between hatches was increasing, with many citing a reduction in homogeneity on protein, admixture and moisture, resulting in inconsistent milling performance.
- 3) Lack of technical and market support. The technical support to National Pool customers is at a superficial level and less collaborative than compared to the statutory Australian Wheat Board in the 1990's. Customers cite the US Wheat Associates and Canadian interests as becoming more proactive in working with customers on the development of white wheat grades.
- 4) Australia is now facing strong competition from new export competitors. Outside of the noodle market, Australian wheat is primarily used to blend with other wheats. Flour millers are learning how to blend wheats from India and Eastern European origins which still perform well in the finished product.
- 5) Competition from North American hard white wheats. Canada and the USA are aggressively pursuing the development of commercial hard white wheat grades. Most Asian markets had seen laboratory and limited commercial examples of this wheat. The colour is not as good as Australian wheat but it was still likely to compete with some grades of Australian wheat such as AH and APW for some applications.

These problems have arisen as the export wheat industry has become progressively less-regulated. The incumbent exporter now responds to commercial pressures dictated by the investment market but remains the beneficiary of the export monopoly and a weak regulatory authority.

Studies by private and public organisations and parliamentary enquiries over recent years have consistently identified the same structural problems within the industry and made similar recommendations.

Studies cited include; Productivity Commission Staff Research Paper 2000, National Competition Policy review of the Wheat Marketing Act 2000, the Kronos Report 2002, the Accenture Report 2002, Rural & Regional Affairs and Transport Legislation Committee enquiry into the Wheat Marketing Amendment Bill 2002, the GGA submission to the 2004 Wheat Marketing Review Panel and the final report of the 2004 Review.

The common recommendations can be grouped under the following headings:

- a) Transparency;
- b) Competitive Tendering; c)
Corporate Governance;
- d) Complementary Sales Channels; and e)
Industry Representation.

These findings and recommendations were summarised by the Grain Growers Association and circulated in a document to our members in late 2004.²

The most recent review, the 2004 Wheat Marketing Review Panel reported to government and the industry in October 2004. In April 2005, the Minister for Agriculture endorsed in full the findings and recommendations of the panel. Grain Growers Association supports the implementation of these reforms.

Recommendation - That the Agriculture and Food Policy Reference Group support in full, the immediate implementation of the reforms recommended in the 2004 Wheat Market Review.

Biotechnology in the grains industry

The application of technology in the grains industry has been one of the factors that has seen the sector remain globally competitive. A recent Productivity Commission report states that in terms of productivity growth the grains industry was the strongest performer, at 3.3 percent per year from 1977-78 to 2001-02. ^s

This Association regards biotechnology and more specifically genetic manipulation as the step in technology that has the potential to take our farmers to the next level of sustainability and profitability.

Grain Growers Association has been active in adding to the levels of understanding of farmers about this science. The Association has made available to members the Gene Technology workshop delivered by the CSIRO in Canberra.

In early 2004, the Association funded the visit to Australia by Dr Andy Tommey, a senior policy official with the Environment Directorate-General in the European Commission in Brussels. Dr Tommey spoke to state ministers for agriculture, farmer organisations and bureaucrats about the amount of research being conducted within the European Union into the genetic manipulation of crop cultivars.

Despite the good reasons for allowing field research to go on in Australia, the flawed nature of the Gene Technology Act 2000 has allowed state governments to impose

² Marketing Australian Grains - Wheat in Review ³
Trends in Australian Agriculture - 2005

moratoria not based on science. The rapid adoption and proliferation of genetically modified crop cultivars in a number of competing countries makes a mockery of Australia's politicised regulatory approach.

The cotton industry provides a good case study of the success of this science in Australia. The technology was slowly adopted and not an outstanding success until the farmers, agricultural scientists and agronomists worked out the best package and application of the technology. Broad-acre chemical usage in the cotton industry has been greatly reduced with cost savings to the producers and a reduced impact on the environment.

Other cropping industries in Australia must be allowed to adapt the technology and find the solutions to their own production problems. Grain Growers Association has made a submission to the review of the Gene Technology Act 2000, recommending that the regulatory system remain rigorous and transparent, but science based.

There is no justification for the Act to be broadened to include such considerations as market access or liability issues. Market access is a function of supply and demand for a product and liability is a matter for common law.

The various state moratoria have resulted in a slow-down and in some cases a complete stop to research and field trials. Some of the moratoria extend out to 2008 but Australia cannot afford to wait that long to decide whether to commercialise this technology.

Recommendation - That the Agriculture and Food Policy Reference Group support the Gene Technology Act 2000 decision making process remaining on a strict scientific basis.

Recommendation - That the Agriculture and Food Policy Reference Group recommend that the Federal Government amend the Gene Technology Act 2000 to, 'allow a clear path to market', for companies seeking to develop genetically manipulated plant cultivars in Australia.

Using and Managing Natural Resources

The focus by the wider community over the past ten to fifteen years has resulted in huge impacts on private landholders' use and enjoyment of their land and water resources. Unworkable and counter-productive legislation impacting on use of natural resources has affected rural communities across Australia.

In New South Wales as just one example, there are a number of different Acts and sets of regulations that overlap and at times duplicate. This in turn leads to conflicting advice from different government departments that have some responsibilities to regulate the use of natural resources.

A number of ongoing costs fall on the landowner. These include

- The cost of self-education in the legislation, regulations, codes, consent processes and regional catchment plans;
- The opportunity cost arising from loss of rights in existing privately held land;
- The cost of identifying and assessing protected species of plants and animals and locating and protecting their habitat;
- The cost of identifying and preserving riparian zones.

The opportunity cost will vary considerably from property to property. Land that has already been cleared and developed, incurs low compliance costs and becomes more valuable. Land that has native vegetation preserved on it is devalued as it is no longer able to be developed.

The problems are well documented by many landholder representative groups and through enquiries by such organisations as the Productivity Commission.

Recommendation - That the Agriculture and Food Policy Reference Group support the simplification of environmental regulation within Australia. This would involve the merging of various environmental Acts and focusing on environmental outcomes rather than processes.

Recommendation - That the Agriculture and Food Policy Reference Group recommend legislative change to give greater weight in consultative processes to landowners and those who have a genuine stake in managing the land and will be impacted by the direct costs of regulation.

Rural and Regional Communities

Grain Growers Association has many members in regional New South Wales, Queensland and Victoria who have been and continue to be affected by the quantifiable decline in some vital infrastructure. The Association will limit its input to the 15 country rail branch lines in New South Wales under threat of closure.

New South Wales Rail Branch Lines

Consecutive State governments have failed to invest in the 15 branch lines that have been identified as under threat of closure. A series of events in the grain industry over the past 10 years however, have served to bring the issue to a head.

Partial government withdrawal from regulation of the industry has seen former government statutory authorities, largely converted into commercial organisations. Privately owned bulk handling companies, ports, marketing organisations and rail companies are no longer under the direct control of government and their spending and charging structures are amended to respond to the commercial environment.

In 2002, the rail company Pacific National was formed when Toll Holdings and Patrick Corporation purchased Freight Corp from the NSW State Government and National Rail from the Federal government.

A number of commitments in relation to Community Service Obligations were made by the NSW State government but these have only been delivered to a limited degree.

In response, Grain Growers Association in 2002 commissioned a grain industry consultant Kronos Corporate and transport economists, Meyrick and Associates to deliver a case study on one of the branch lines in question. The study on the Boree Creek to The Rock rail line was delivered in July 2002 and many of the findings and conclusions apply equally to the other branch lines.

Specific Findings⁴

- The closure of the Boree Creek line is not warranted in economic terms. Using conservative assumptions there is a net economic loss of \$120 000 to the community through closure.
- There would be an estimated additional road task of over half a million net tonne kilometres of travel each year if the rail line closed.
- The economic costs of closure would fall in the main on the local community with road damage and increased resource costs in transport being principal. The benefits would flow to the rail owners and operators in reduced costs.
- Accident costs due to increased use heavy vehicles would increase and the interaction with local traffic would increase in proportion to the additional traffic.
- An estimated additional cost of \$10 000 per annum would result from additional greenhouse gases emitted from road vehicles.

⁴ Rail Freight Changes on the Boree Creek to The Rock branch line.

Recommendation - That the Agriculture and Food Policy Reference Group note the lack of commitment by the NSW State Government to its Community Service Obligations to the state rail network.

Future Operating Environment

In the 10 to 15 year time frame cited in the Reference Group discussion paper, the Australian grains industry is likely to experience further de-regulation. The State and Commonwealth government withdrawal from the market and the rationalisation that has taken place over the past fifteen years is likely to continue.

Over recent years, there has been a proliferation of service providers driving down costs to grain producers as they compete for market share in grain accumulation and harvest finance. The provision of financial services to the rural sector is also likely to continue to become more sophisticated as

Farmers have started to acquire the new set of skills they need to manage their businesses in this business environment but further improvement is required. There are many private and public sector service providers offering the course work required. There has also been a number of government programs at both state and federal level that have assisted

Recommendation - That the Agriculture and Food Policy Reference Group recommend government continue to encourage farmers to equip themselves with the business skills required to operate in the increasingly de-regulated market environment.

Appendices

- i. What the World Wants from Australian Wheat Growers - Confidential Version
- ii. Case Study on the Regional Impacts of Rail Freight Changes on the Boree Creek to The Rock Branch Line.
- iii. Marketing Australian Grains - Wheat in Review