

International Grains Council – London – 11 June 2013 Australian wheat – a quality product in a deregulated market

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Good morning ladies and gentleman and many thanks to Mr Kitahara and the International Grains Council for the opportunity to speak this morning.

Australian wheat – a quality product in a deregulated market.

Australia has a largely deregulated market, the challenge is to ensure we have a quality product. So what is quality?



To an Australian wheat producer, quality may well be aligned to protein percentage.



To the Australian government official responsible for issuing the export phytosanitary certificate, quality may mean that the wheat did not contain any live insects and conformed in all respects to the requirements of the importing country.



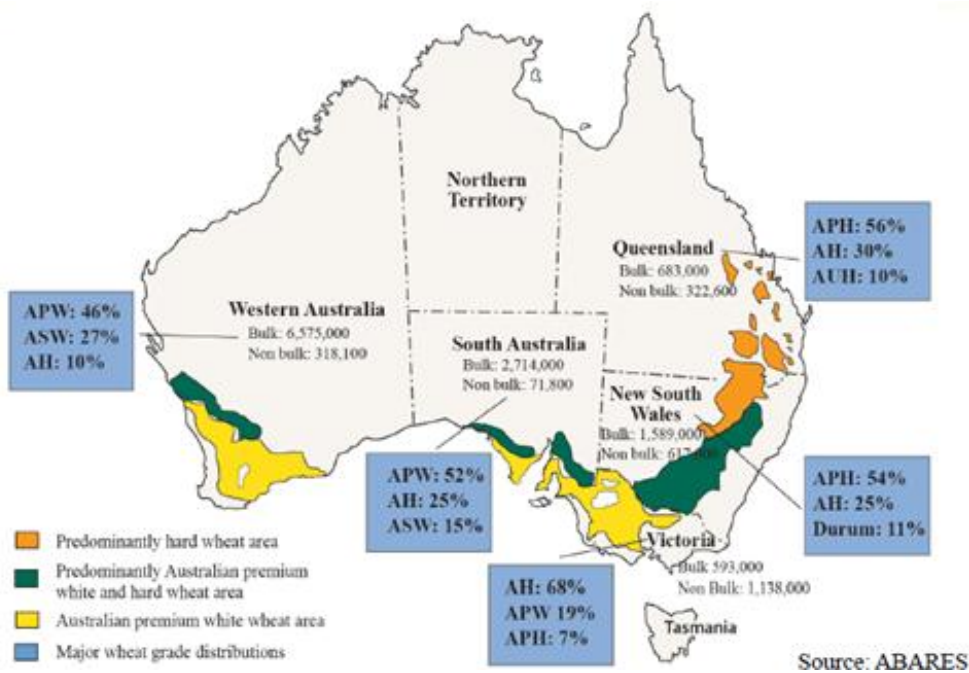
To the Korean baker using flour derived from Australian wheat, quality means a product with certain physical characteristics, i.e. did the bakery products perform as expected?

So the word “quality” has different interpretations and emphasis depending on where you are positioned in the grain supply chain.

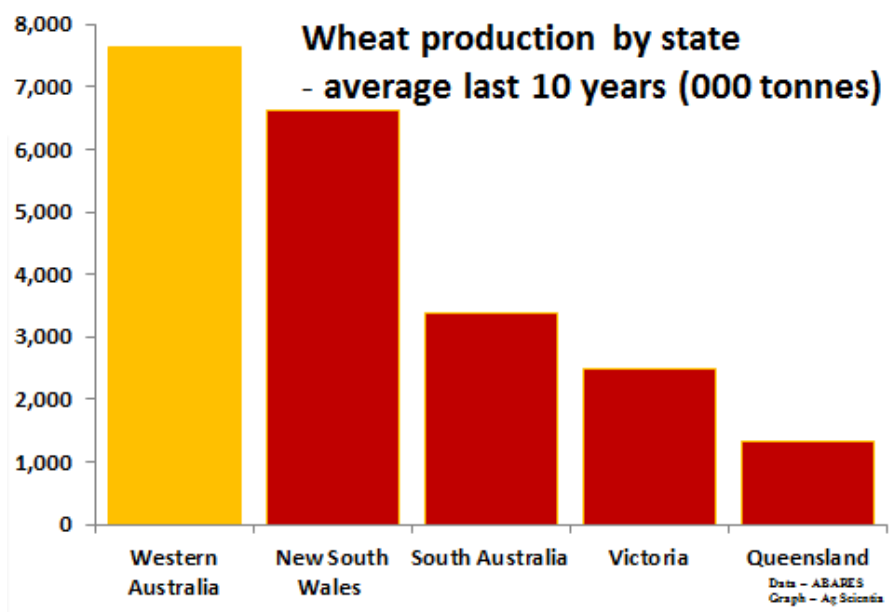
This morning I would like to give an overview of the processes that the Australian wheat industry has established to ensure that the ultimate end user, be they in Australia or in a global export market, receives a quality product.

However, by way of introduction I would like to give an overview of the wheat industry in Australia since the export market was deregulated in 2008.

Wheat is grown in all states except the Northern Territory. In general terms, the higher protein wheat is grown in the northern and drier regions of Australia.



The eastern states have a strong domestic focus, though there is a different story in Western Australia¹, a state 3.6 times the land mass of Texas². (Yes folks – there’s a state bigger than Texas!). The Western Australia market is totally export focussed due to a very small domestic demand.



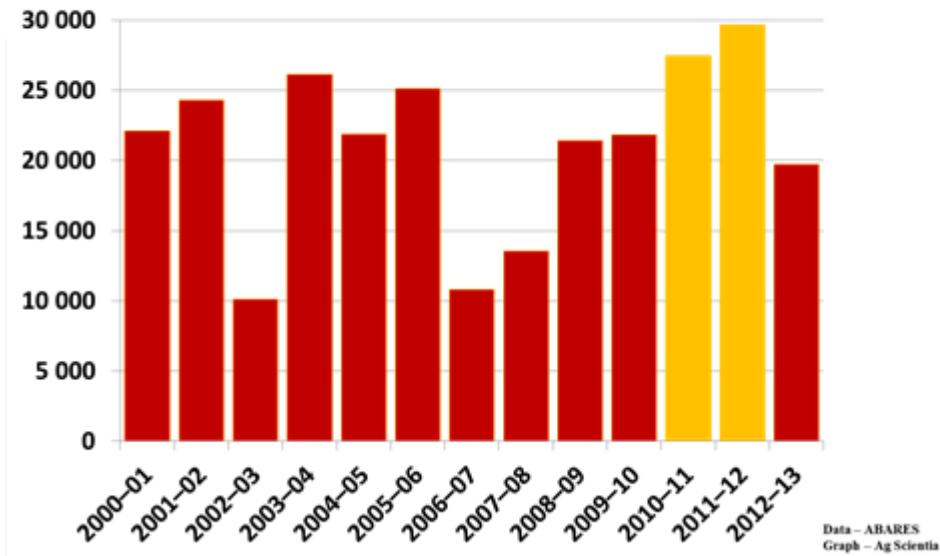
The headline item in regards to **production** in recent years was the record production of 27.5 million tonnes for the crop grown in 2010 and just under 30 million tonnes for the crop grown in 2011.

Typically, Australia will consume approximately 5.5 to 6.5 million tonnes of wheat leaving a substantial exportable surplus.

¹Western Australia - 2,529,875 sq kms

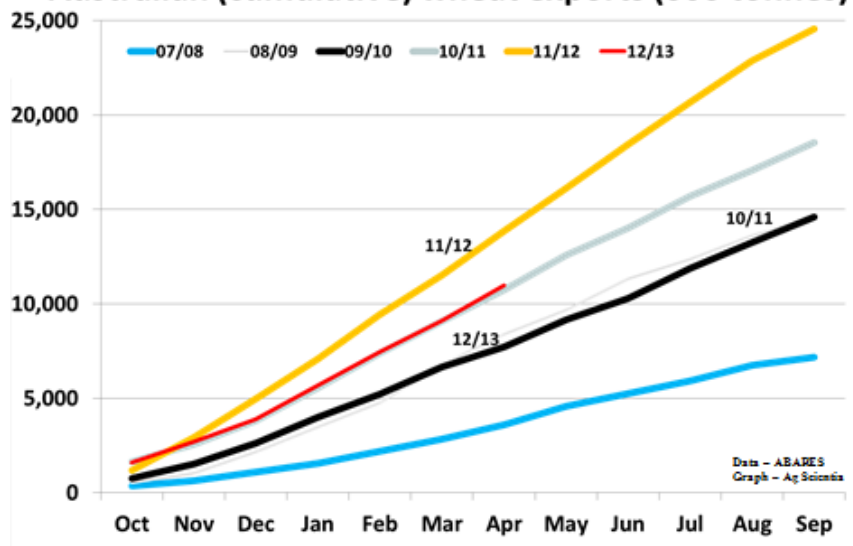
² Texas - 695,621 sq kms

Australian wheat production (000 tonnes)



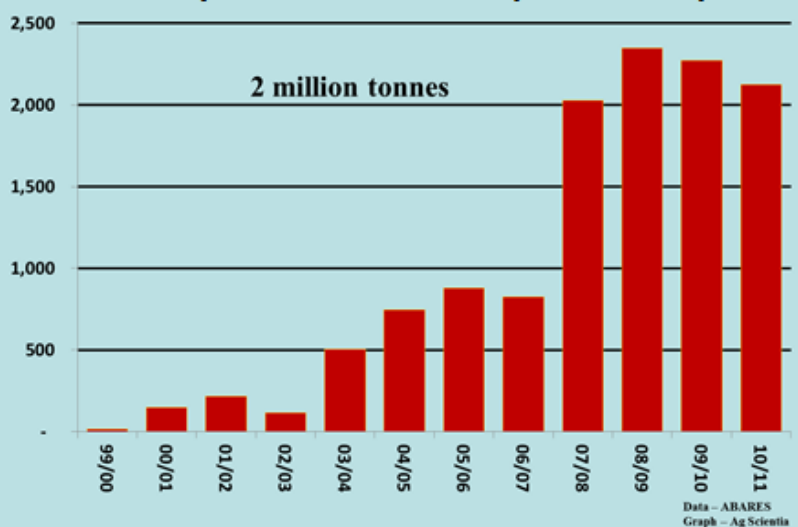
Bulk shipping programs have been running at record levels in recent years.

Australian (cumulative) wheat exports (000 tonnes)

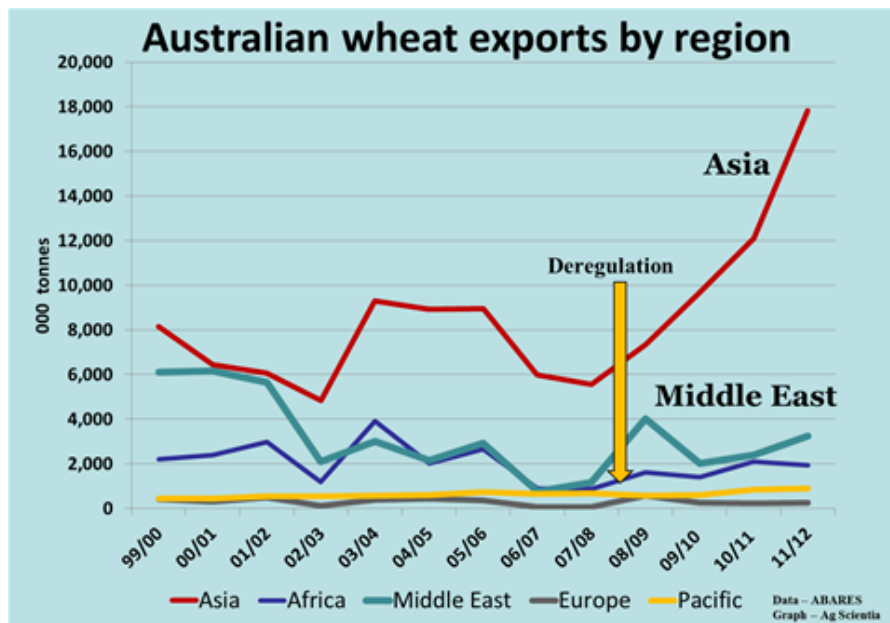


The tonnes of wheat exported in **containers** has grown in the last four years from a base of 0.5 million tonnes to over 2.0 million tonnes.

Wheat exports in containers (000 tonnes)



In regards to the export markets – have destinations altered? Historically, the Middle East was a major market for Australian wheat, however, this has changed.



Up to 2008, Asia took 30% of the exported wheat from Australian, whereas it now accounts for 70% of our exports. This change reflects our natural freight advantage over our Northern American competition and also the ability and quality of Australian wheat to satisfy the contemporary needs of Asian markets.

Summing up, in the last four years, the Australian wheat industry has seen record production, record shipping programs, record growth in container exports and a swing into new markets - sound evidence of the success of the deregulation process.

Quality and wheat exports pre 2008

Prior to 2008, AWB Ltd had the legislated rights to the export of wheat from Australia and controlled all aspects of the quality process. Key functions conducted by AWB included:

1. Crop shaping activities – what does the market require and therefore where should wheat breeding be focussed.
2. Wheat variety classification – what are the functional properties of a variety that then place that variety in a grade which is then aligned to the;
3. Wheat standards, which specify the type of wheat that is contracted.
4. Technical market support to the customers of Australian wheat
5. Research & development, both on farm and at the processing / milling end of the supply chain
6. Trade and regulatory advocacy to ensure secure and ongoing market access and development of new markets.

That was 2008. So what are the processes that are now in place to deliver that “quality product” that will suit the needs be they the Australian wheat producer, the government inspection official or the Korean baker?

In essence the quality story can be told in four parts:

1. **Pre-Production**
2. **Wheat Production**
3. **Wheat receival and storage**
4. **Wheat Out turn & marketing**

Pre-Production

When one thinks of wheat production you immediately imagine fields of golden wheat bending in the wind. However, the base to deliver that image is set by a myriad of individuals and organisations responsible for breeding and variety accreditation.

Like every other product, service or commodity for sale in the world, the Australian wheat producer needs to produce wheat to suit the needs of the consumer, cognisant of their own environmental constraints.

In recent times, the breeding of wheat has moved from public breeding programs into privately owned and operated technology providers. This shift in ownership has resulted in breeding programs that are focussed on delivering wheat varieties that contain those functional properties required by the eventual end user, be they a baker, noodle manufacturer or food processor.

These market requirements are channelled back to the wheat breeders via [Wheat Quality Australia](#), with much of this pre-breeding work funded by the [Grains Research & Development Corporation](#), a federal government statutory authority which collects a levy from grain farmers. The purpose of this levy is to allocate and manage investment in grains research & development and last year collected over AUD54 m from wheat farmers with contributions from government on a matching formula.

Varieties that have the potential to be commercialised are trialled in a range of environments under programs such as the [National Variety Trials](#) and if judged suitable, the seed is made available for commercial sale.

Prior to release of this seed for commercial production, [Wheat Quality Australia](#) assesses the wheat varieties under their classification guidelines. These guidelines are not so much focussed on agronomic issues but on the functional performance of that variety from a customer context, be that a flour miller or baker.

The grade is then aligned to the wheat standards that are used in trading activities. This ensures that the functional requirements of the end user are enshrined in the contract.

To ensure sufficient income is raised to continue wheat breeding, Australia has legislative controls, known as [Plant Breeder's Rights](#) whereby the plant breeder receives a royalty from farmers who use their seed.

Wheat Production

Wheat production - where the skill and professionalism of the Australian farmer comes to the fore. Pre-production techniques ensure sowing seed is suitable for Australian growing conditions and it is the farmer's role to use that sowing seed to produce wheat required by the world markets.

However, in their endeavours, farmers are required to comply with regulations set by various government departments covering a range of activities, such as chemical application. The [Australian Pesticides and Veterinary Medicines Authority](#) oversees the approval and use of chemicals applied in farming be that in crop or wheat storage.

In regards to tillage operations, a range of agronomic practices are implemented. Much of this agronomic information is provided through activities of organisations such as the [Grains Research & Development Corporation](#), grower groups and State Departments of Primary Industries. A significant benefit to all involved in the production sector arises from national co-ordination of research and development led and coordinated by the [Grains Research & Development Corporation](#).

Wheat Receival and Storage

Standards set by the International Standards Organisation (ISO) form the basis of quality processes adopted by all the major storage operators.

These processes are supported by nationally agreed methods to sample and test wheat developed by [Grain Trade Australia](#). These methods are further enhanced with the requirement that equipment that is used being compliant with the regulations set by the [National Measurement Institute](#), a federal government agency.

When delivering their wheat, Australian farmers must declare the chemical regime that the wheat has been exposed to, if any, and the wheat variety in order to determine the royalties to be paid for that variety.

The wheat standards published by Grain Trade Australia are the basis for trade standards used by industry. Importantly, industry recognises that when wheat is out turned from a storage it must comply with the Grain Trade Australia standard.

Australia has a proud history of regulatory requirements in regards to chemical use. Adherence to the Maximum Residue Levels, be they set by CODEX or the country of import, is critical. These activities are handled by the [National Working Party on Grain Protection](#) which is the focal point for reference and advice on market requirements and chemical use.

Wheat Outturn and Marketing

Question	What is a quality product?
The classic response is	One that satisfies the customer's needs.
So	How does the customer of Australian wheat convey their requirements to the seller?
Answer	In the contract.

Within the Australian grain industry there is strict adherence to contracts which detail the buyer's requirements which are either embedded in the contract proforma or annexed in the form of a wheat specification or standard.

Wheat for export can only be shipped from Registered Export Establishments approved by the [Department of Agriculture, Fisheries and Forestry](#). Prior to loading, all containers or vessel holds must meet government requirements to show the absence of quarantine material such as stored grain insects or other material that may compromise the quality of wheat to be loaded.

The wheat is also inspected by government Authorised Officers to ensure it meets the quarantine requirements of the importing country which may include freedom from particular pests and diseases.

Where required, independent service providers are used to sample, test and certify that wheat out turned satisfies the export customer's requirements as per the contract. For the majority of exports and for some wheat supplied to the domestic market, testing independent of industry is conducted by the [National Residue Survey](#) which tests for a wide range of chemicals in wheat to ensure compliance with Australian or the country of import Maximum Residue Levels.

The need to provide technical support to the customers of Australian wheat will be enhanced by the recent establishment of the [Australian Export Grain Innovation Centre](#) in Perth, Western Australia. The Centre will aim to provide an independent source of Australian wheat quality information, analysis and technical support to overseas customers of Australian wheat.

Australian Grain Industry Code of Practice

To market quality wheat is complex and diverse with continually evolving processes being developed to ensure compliance with customer and regulatory requirements. As market requirements continue to evolve there will be an ongoing need for both informal and formal quality assurance systems to be developed and used, especially in niche areas of the industry.

To evidence the activities occurring across the supply chain from pre breeding activities to the supply of the wheat to an end user, Grain Trade Australia will shortly release the **Australian Grain Industry Code of Practice** at the Australian Grain Industry Conference to be held at the end of July. This Code will detail all the practices that the industry uses to ensure Australian wheat and other grains meet domestic or export customer requirements.

International alliances

So, is this, albeit at a high level, the sum total of the quality processes embedded into the Australian wheat industry?

I would say NO! For instance, do Australian wheat breeders conduct their activities in isolation?

The [International Maize and Wheat Improvement Centre](#), more commonly referred to as **CIMMYT** is based in Mexico and collaborates with national agricultural research institutions worldwide, in providing farmers with the best seed, agronomy, and information needed to increase yields. The CIMMYT Board of Trustees are drawn from, Australia, Great Britain, India, Mexico, the United States of America, Japan, Germany, Canada and Zimbabwe. A truly international effort.

Are there other international examples that enable Australia to market quality wheat to the world? The international development of international food standards is conducted by [Codex](#) which was established by the Food and Agriculture Organisation, whilst phytosanitary standards and guidelines are established by the [International Plant Protection Convention](#). As an export wheat nation, Australia is dependent on the work of the IPPC.

At a commercial level, there is international cooperation across like-minded grain trade organisations through the work of the [International Grain Trade Coalition](#) that is tasked by its members with ensuring the facilitation of the international trade of grain. Currently the **International Plant Protection Convention** is considering the development of an international standard for phytosanitary measures. The **International Grain Trade Coalition** will participate in this process to ensure that the standard(s) developed will meet the best interests of the parties involved in the contract.

And last up, how could we ignore the International Grains Council? Time precludes a detailed list; however Australians are in constant touch with their international counterparts irrespective of the sector of the supply chain they come from.

Quality and wheat exports 2013

So what has changed since the export market was deregulation in 2008? Has the industry covered off on those critical functions that protect and enhance the quality reputation of the Australian wheat industry?

1. **Crop shaping activities** are now conducted by Wheat Quality Australia, a joint venture between Grains Research & Development Corporation and Grain Trade Australia and via the market signals from customers in their contractual requirements.
2. **Wheat variety classification** is conducted by Wheat Quality Australia
3. **Wheat standards** are developed by Grain Trade Australia

4. **Technical market support** is conducted by:
 - a. wheat exporting companies as part of their customer service; with the technical expertise from
 - b. Australian Export Grain Innovation Centre and other commercial providers.
5. **Research & development**
 - a. On farm - conducted by Grains Research & Development Corporation
 - b. Customer - Australian Export Grain Innovation Centre
6. **Trade and regulatory advocacy** conducted by trade organisations and the recently established Grain Industry Market Access Forum who work in conjunction with government agencies such as the Department of Agriculture, Forestry & Fisheries and the Department of Foreign Affairs and Trade.

In conclusion

Ladies and gentlemen, Australia continues to supply quality wheat to the world and for that, I, like all my compatriots in the Australian grain industry are proud. The evolution from a regulated to deregulated export marketing environment has been achieved by a cooperative approach across the supply chain. This was achieved without an overbearing and bureaucratic regulatory structure or involvement.

In conclusion, these developments are a combination of hard work, innovation and determination within Australia assisted by considerable international input at various stages of the grain supply chain.

Thank you

