

26 August 2015

Mr Terry Enright
Chairman
Australian Export Grain Innovation Centre
3 Baron-Hay Court
SOUTH PERTH
Western Australia 6151

Dear Terry and David,

Re: Feedback on Proposed AEGIC Strategic Priorities

Thankyou for a copy of the industry consultation paper on AEGIC's mandate and the opportunity for Grain Trade Australia to provide feedback on the paper.

We offer the following comments for consideration.

Objective of AEGIC

We note that the key objective is to “enhance the value capture by export grain producers through national leadership and coordination in research directed at export grain quality, functionality, processing innovation and market and supply chain analysis”

Comments

- Based on the shareholders it is understandable a primary focus is on export grain producers. However for the ongoing success of the Australian grains industry it is critical that value is generated and captured along the entire grain supply/value chain and that areas of focus such as grain quality and functionality should also generate value for the post-farm gate sector. To gain support of the post-farm gate sector it will be important to engage with and demonstrate to the sector how AEGIC will enhance the overall grains industry.
- Although major activities will be in support of the export grain sector, much of the research will also have implications for the domestic grain sector.

Strategic Priorities

Many of the comments made below are relevant across the priorities.

Priority 1.

Technical evaluations of new varieties of grain for their milling and baking qualities, malting characteristics, oil contents and other functionality is important. AEGIC is well placed with its technical capability and infrastructure to play a key role in providing this information.

The technical evaluation of how new and existing varieties can be adapted to meet international customers processes such as sponge and dough is also an important area and one in which AEGIC has capability.

However there are also other providers of these capabilities including Grain Growers limited, the CSIRO and universities. Private companies including breeding companies and grain marketers/handlers also do considerable work on grain quality and functionality.

Hence we are not convinced that AEGIC needs to be the “central” point of contact for international processors. This may evolve overtime but initially it will be important that AEGIC understands what other organisations are doing in these areas and could play a coordinating role to ensure that both international and also domestic customers have access to the information they require. The quality of results that AEGIC develops on grain functionality and processes will ultimately determine how it is perceived and utilised by international grain processors and traders.

The use of the word “independent” could suggest that data generated by other organisations is not independent. For example results from the CSIRO and Universities would also be considered to be independent. In some cases the data maybe from companies with a direct commercial interest in the outcome but grain buyers would no doubt take this into consideration.

The need to develop an appropriate modern headquarters for decision of the Shareholders

Priority 2

Technical support and training in grain functionality and processing are areas where AEGIC has capability and is encouraged. We support the statement that AEGIC hopes to work with existing providers to build capacity and minimise duplication. This should include both public and private service providers.

Priority 3

Feedback from international customers comes through a number of channels including; buying patterns, trade contract specifications, competitor activities, market research and changing consumer trends in the target markets.

“Quality of the grain “ issues such as moisture content, protein levels, adventitious material etc tend to be very much driven by current market and seasonal factors and are reflected in Trading Standards. The GTA Code of Practice and recently released GPA Growing Australian Grain, together with the work of NWPGP all contribute to the quality of the grain

Longer term, “quality in the grain” issues that are important to classification bodies such as WQA and plant breeding companies are important but more difficult to identify and quantify. No doubt the breeding companies are investing considerable resources in these areas.

On a related matter, GTA supports the eventual location of WQA in AEGIC. However this should not occur until the WQA is functioning to the levels expected by their Board and that AEGIC’s strategy review has been completed.

Priority 4

There are a wide range of grain crop reports that are provided by both the public and private sectors. State Departments of Agriculture provide a variety of reports covering things such as seasonal conditions, planted areas and production forecasts. ABARES also publishes a range of crop production related reports.

A number of private suppliers such as Australian Crop Forecasters provide regular reports on seasonal conditions, production forecasts and market conditions to clients.

Grain traders and logistic companies also publish a number of production related reports.

International buyers also commission a number of their own reports.

AEGIC and GGL have published a crop quality report and the recently mandated stocks information report will also add to the quantity of reports available.

We believe a number of factors need to be considered when looking at the range of crop reports and whether additional reports are required. These include the following;

- Target audiences of the various reports e.g. Producers, grain traders, governments, international and domestic consumers.

- Is the data that is generated market failure/ public good or should it be commercially provided. Market failure / free rider considerations need to be determined
- Differences between public and commercially sensitive information.
- The accuracy and/or reliability of the data used to compile reports.
- Value of the reports i.e. who uses them?
- Gaps and/or duplication with current reports.

Priority 5

Providing feedback to industry on trends, challenges and opportunities in Australia's key and international grain markets is important. AEGIC's resources (funds and economic analysis capability) can play a significant in generating these reports.

The rapidly changing global grains industry is challenging traditional market advantages including proximity to markets and quality.

As for Point 5, there have been a number of reports published in this area including Single Vision, The Grains National RD&E Strategy, and State Department of Agriculture reports (e.g. South Australia and Western Australia). The Australian Farm Institute has also published some good reports covering these topics.

Again there are a number of factors that need to be considered including; target audience, definition of the issue e.g. RD&E or trade and market access, and how ultimately the reports will be utilised by the grains industry.

Priority 6

This is an area that requires widespread industry discussion and buy-in. As has been pointed out in discussions with AEGIC, some of the activities conducted so far have actually potentially been seen to be to the detriment of the industry.

We strongly support your comments under this point, that there must be a "whole-of-industry" approach and GTA stands ready to work with AEGIC and others in this area. It is important to appreciate that the whole of the grain industry supply/value chain is responsible for and contributes to the functionality, quality and reputation of Australian grain exports.

Broad discussions also needed around both the need for and the form any generic promotion should take. This includes possible functions such as, information provision, technical support and potential lobbying. Consideration also needs to be given to funding and structural options.

Priority 7

The National Grains RD&E Strategy did identify AEGIC as a National Centre of Excellence in the area of grain quality, processing and functionality. Our comments in relation to **Priority 1** are also relevant to this priority.

Priority 8

GTA supports this priority.

Priority 9

As mentioned previously under the comments on AEGIC's Objective, based on the company's shareholding, the focus of returning value to growers. However it is again worth highlighting that for the ongoing success of the Australian grains industry it is critical that value is generated and captured along the entire grain supply/value chain.

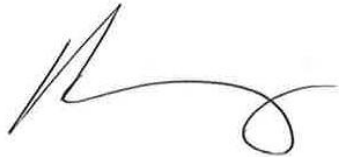
The areas of AEGIC focus on grain quality and functionality should also generate value for the post-farm gate sector. There are obvious areas where the pre-farm gate and post-farm gate sectors will have

competing drivers however at the end of the day the entire supply chain wants a customer prepared to pay a market price that ensures sustainable profitability and return on investment.

Both sectors contribute to the functionality and quality of Australia's grain exports and where feasible should work together to ensure that grain exports continue to effectively compete in increasingly competitive global grains industry.

It is also worth highlighting the difficulty in being able to quantify the value to growers.

Yours sincerely

A handwritten signature in black ink, appearing to be 'Peter Reading', with a stylized, flowing script.

Peter Reading
Chairman