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Agricultural Competiveness White Paper

About Grain Trade Australia 1.

Grain Trade Australia (GTA) is the focal point for the commercial grains industry within Australia. It facilitates trade and works to provide an efficient, equitable and open trading environment by providing leadership, advocacy and commercial services to the Australian grain value-chain.

GTA members are responsible for over 95% of all grain storage and freight movements made each year in Australia. Over 95% of the grain contracts executed in Australia each year refer to GTA grain standards and/or Trade Rules.

GTA members are drawn from all sectors of the grain value-chain; from production to domestic end-users and exporters. GTA members are involved in grain trading activities, grain storage, grain for the human consumption and stock-feed milling industries.

GTA also attracts membership from organisations aligned to the grain value-chain in related commercial activities such as financial (banking, stock exchanges etc.); communications; grain advisory services and professional services (e.g. solicitors and accountants). The GTA membership list is attached.

Within this context, GTA provides comment for consideration on various issues that impact substantially on the ability of Australia to compete in the global grain market.

2. **Submission**

This submission will raise issues under the following broad categories aligned to the Issues for Consideration as detailed in the Issues Paper.

- 1. Developing technologies
- 2. Infrastructure development
- 3. Education/capacity building in the vocational/tertiary education sector
- 4. Employment regulatory constraints
- 5. Trade and market access

Issue 1: Ensuring food security in Australia and globally

• What opportunities exist to expand agricultural production in Australia and how can we take advantage of them?

Australian research institutions such as CSIRO, The Australian Centre for Plant Functional Genomics and AgriBio each have significant GM wheat collaborations and development programs. The Grains Research and Development Corporation supports many of these programs.

Also major global agricultural biotech companies such as Monsanto, Bayer CropScience and Pioneer have launched significant initiatives and investment in the development of GM wheat programs in countries such as USA, Canada and Australia.

The announcement by CSIRO of a new wheat variety (high-amylose) with human health benefits created by CSIRO-developed RNAi gene-silencing techniques demonstrates that these R & D programs are well established on the product development pipeline. Various industry stakeholders and technology developers have indicated however, that GM wheat may not be commercially available for between 8 - 10 years.

The introduction of GM canola in 2008 was a clear demonstration that:

- 1. The regulatory processes (OGTR) were appropriate and affective; and
- 2. The grain industry was able to deliver market choice to both grain producers and end users alike.

However, the uptake in biotechnology is subject to a perceived lack of support by consumers both in Australia and overseas.

Australia possesses the science and scientists; the regulatory approval processes and a grain handling and marketing system to produce, transport, store and market GM grain.

Uptake of this technology, along with other new plant breeding technologies will increase farm-gate values for grain producers, would be substantially enhanced by a clear and unequivocal announcement that the Government fully supports this technology and will actively work with the grain industry supply-chain and customers of Australian grain to ensure a timely and market sensitive adoption of the technology. This may necessitate the Government leadership, in conjunction with industry, in developing an industry-based adoption and marketing strategy.

The industry must continue to place strong emphasis on improving productivity. This is one of the most significant challenges facing the Australian grains industry.

From the mid-seventies to the late nineties, total factor productivity grew in excess of 3.0% per annum, which was well ahead of other agricultural industries in Australia and ahead of most other advanced grain producing countries. These advances were primarily driven by advances in farming practices including the development and adoption of minimum tillage; the use of grass herbicides; crop rotations and improved nutritional programs.

More recently productivity improvement rates have declined driven in part by adverse seasonal conditions but other factors have also contributed to the decline. The Government through its contributions to GRDC has been focussing efforts on better understanding the reasons for the decline and designing RD&E programs to increase the rate of productivity improvements. The recent commercialisation of wheat breeding in Australia is showing positive results in the rate of genetic gains for wheat which will be a major contributor to productivity growth into the future.

• How can farm businesses, food manufacturers and the retail sector be more responsive to domestic and global food demand and better integrate into domestic and global supply chains?

The sole task of Grain Trade Australia is to facilitate the commercial trade of grain across the Australian and international grain supply chain. GTA does not receive and indeed does not seek funding from sources external to the grain industry. GTA is therefore entirely responsive to the market signals from members as to the types of products and services required by its members in the facilitation of domestic and international trade.

The global grains industry is becoming increasingly competitive. An example of this is the rising importance of the former Soviet Union countries in international grain trade. In this changing global environment it is essential that the Australian grains industry supply chain can supply the market with grain in the quantises and product specifications that it requires.

In the same way, the management and investment in domestic and global grain supply chains is best left to market based investment decisions. The application of determinations on foreign investments based on a "national interest test" need to be applied judiciously based on sound arguments, devoid of emotive commentary.

Issue 6. Improving the competitiveness of inputs to the supply chain

- What skills including specialised skills and training, will be required in the future and how can these be delivered and uptake encouraged?
- How can we promote career pathways for the agriculture sector, including models to enable younger farm workers to gain broader industry experience?

The Australian grain industry, at farm gate values alone, is worth circa \$8 billion without factoring in the value of inputs, employment and further processing in the sector Given the substantive value to Australia it is somewhat surprising that there are no grain specialist tertiary or vocational (VET) qualifications that would support/encourage school leavers into or offer a career path to those in the industry.

In response to a market based need, in 2010, GTA developed and implemented a project to develop a grain industry specific professional development program. The GTA PDP now attracts over 500 participants per year from across the grain supply chain, mostly from the post farm-gate sectors.

The last component of this project was to gain accreditation for the courses and for GTA to be able to offer a Diploma in Grain Management which could also be offered to universities and agricultural colleges.

GTA has been working with Agrifood Skills Australia for over two years to develop and gain approval for this qualification.

GTA understands that Industry Skills Councils are funded by the Commonwealth to:

- facilitate the establishment of required training programs and qualifications to meet industry skills and training needs
- assist stakeholders navigate the overly complex vocational education and training system.

The Grains Industry and GTA have been poorly serviced by these arrangements to date.

After several failed attempts to engage with AgriFood Skills Australia in order to enlist their assistance to develop appropriate training arrangements and qualifications to support people working in the critical area of the commercial grain supply-chain, GTA needed to engage a consultant to undertake the required work to progress the development and establishment of a VET accredited course through the Australian Skills Quality Authority.

This action was necessitated by AgriFood's apparent indifference to the needs and priorities of our industry sector and a reluctance to listen to and/or heed industry advice. The absence of industry endorsed and relevant training arrangements within the grain trading sector provides significant challenges to improve the competitiveness and the productivity of our workforce.

The Coalition Government's determination to remove unnecessary red tape, ineffective bureaucracy and cumbersome processes, as well as simplify the training system, is to be applauded and fully supported. It appears that some ISCs may be a part of the problem rather than a solution in this critical area.

• What irrigation, transport, storage and distribution infrastructure are required to support the food and fibre production systems of the future and how should this be funded?

In average production years, at least 60% of Australia's grain production is exported and Australia's contribution to global exports will become increasingly important within the ASEAN and North Asian regions.

For the grain industry to be globally competitive, road and rail freight infrastructure must operate on a least cost basis. Numerous studies demonstrate that, particularly for rail freight, this does not occur, adversely impacting on farm-gate values to producers and our competitiveness in overseas markets.

Of all the issues identified in the Issues Paper, reduced freight costs to port would be the biggest single contributor to increasing the return at the farm gate.

To illustrate, the average bulk grain export vessel holds approximately 40,000 tonnes of grain. To load the average vessel exclusively by:

- rail requires just over 18 train loads (each of around 2,200 tonnes).
- road requires just under 900 truckloads (of an average 45 tonnes) requiring at least 1800 individual truck journeys to the port.

Based on an average rail freight cost of \sim \$0.10/net tonne kilometre (NTK), versus \sim \$0.12/NTK for road freight – the difference in freight costs are:

Journey length	Rail advantage over road (per tonne)	Saving per vessel (based on 40,000 tonnes)
400km	\$8	\$320,000
500km	\$10	\$400,000
600km	\$12	\$480,000

A lower cost supply chain is also critical to ensure our competitive advantage, largely based on lower freight costs, into Asian markets is secured against increasing competition from Black Sea and North American exporters. For instance, rail freight to port (on a NTK basis) in the eastern states is approximately \$0.10/NTK, which is more than 3x more expensive than the cost in Canada (\$0.03/NTK) as detailed below:

Rail cost for a 400km journey		
Eastern states	\$40/tonne	
Canada	\$12/tonne	

In recent years a number of grain bulk handlers and trading companies have demonstrated their preparedness to invest in above rail capacity. However, leadership from the Federal Government is required and GTA would support a comprehensive assessment of rail infrastructure to enable the faster and more cost effective movement of grain to export markets for the benefit of growers and the broader industry.

Funding for improvements to infrastructure would be on a similar basis to that required for the development of the airport to be constructed at Badgery's Creek which was announced by the Federal Government on 15 April 2014.

GTA is seeking similar intervention by the Federal Government as clearly there is a role for Government in these sectors given the efficiency that their involvement can bring to the effective operation of the market. This will lead to reduced supply chain costs leading to improved farm gate returns.

Issue 7. Reducing ineffective regulations

- How well do regulations affecting the industry meet their policy objectives?
- What opportunities are there to reduce ineffective or inefficient regulation?

The competitiveness of any industry is a function of the availability and holistic cost of suitably qualified labour. The grain industry is no exception.

The overall cost of labour has a number of components:

- minimum wage structures, including minimum hour/shift structures and penalty entitlements;
- statutory leave entitlements; and
- the administrative burden of hiring and managing employees.

In our submission, Australia is not only a high labour cost country, it is also a high "red tape" economy, meaning the process of hiring and managing employees imposes a relatively heavy cost and administrative burden on employers. This is the case throughout the grain supply chain.

Further, some aspects of the grain supply chain are relatively seasonal, including within farming, transport and storage enterprises, around peak volume harvest periods. The current industrial relations system makes it expensive for firms to cost effectively hire labour for those peak periods without permanently impacting their cost base on a year round basis.

Further still, as mentioned elsewhere in this submission, the competitiveness of the export grain industry is constrained by access to port capacity due to lack of efficient road and rail infrastructures to deliver grain in the required time frames. In this sense, aside from increasing capacity, competitiveness can be increased by greater labour productivity.

To date however, the prospect of systemically linking employee remuneration increases or promotion to productivity has been controversial and largely unsuccessful.

Any initiatives which can sensibly and sustainably reduce the direct and indirect costs of labour, afford greater flexibility in hiring and allow productivity to be incentivised will in our view improve the competitiveness of the Australian grain industry.

Issue 8. Enhancing agricultural exports

• How can industries and government respond to the key challenges and opportunities to increase or enhance exports?

Delivery of a quality product to an end user, domestic or export will ensure that Australian grain is recognised as a premium product able to compete on world markets based on its intrinsic properties. Also, Australia enjoys a natural freight advantage into Asian markets.

Therefore, into our largest regional export market the combination of a quality product plus a freight advantage is a formidable combination.

However, it would be foolish to expect this situation to continue unchallenged.

To Australia's historical competitors, i.e. Canada and the USA can now be added grain from Black Sea ports. Australia has a natural freight advantage, over Black Sea grain, into Asian markets however this "advantage" can be eroded should freight rates fall and the quality of product emanating from the Black Sea will only do one thing, improve. And as for Canada and the USA, quality improvement is embedded in their processes.

Therefore, it follows, that quality improvement must drive the behaviour of everyone involved in the Australian grain industry. For instance:

- What processes can the producer implement to ensure they deliver a "quality" product?
- Could a prior load in a trailer compromise delivery of a "quality" product.
- The rigor around the sampling & testing at point of receival determine the grade of a load and ensure segregations are appropriate to ensure out turn of a "quality" product.
- Trading standards attached to the grain contract detail the customer requirements, detail a quality product.

The above are examples of the actions that are required across the Australian supply chain that ensure the ultimate end user receives product that suits their needs.

Grain Trade Australia recognised the cross supply chain challenges to ensure delivery to customers of a quality product and determined the need to develop the **Australian Grain Industry Code of Practice (Code)**.

The purpose of the Code is to describe practices that the grain industry use to ensure Australian grain and grain products meet domestic or export customer requirements. Customer requirements include those stipulated in contracts and regulatory requirements at the Australian State, Territory and Federal levels and international and overseas country level. There are also a range of industry standards that are covered under the Code.

The Code focuses on those common standards, operating procedures and documented processes. The Code assumes that all participants in the grain supply chain have in place established practices that ensure compliance with this Code.

By following the Code, all sectors related to the grain industry, governments, researchers and consumers will gain confidence that processes exist in Australia to successfully produce, store and supply grain that meets the expectations of the entire grain supply chain.

The grain industry is committed to self-regulation. This Code assists that purpose by providing a process that is transparent and which outlines minimum requirements of all involved in the Australian grain supply chain.

The Code of Practice has been developed to

- provide further guidance to industry and confidence to customers that the grain industry is committed to meeting its obligations of providing grain according to industry-recommended criteria as defined in this Code and according to those mandatory regulatory requirements.
- to cover all participants of the Australian grain industry. It has been developed to be applicable to all grain and grain products and applies to all stages along the supply chain. The Code has been designed to promote the use of best management practice by industry participants.

Industry recognises the value of formal Quality Assurance systems. While these have been implemented by some sectors of the industry, their widespread adoption has not occurred. Implementation of this Code may assist adoption of Quality Assurance systems at all stages of the supply chain.

As this Code is further developed and reviewed over time, GTA will develop:

- Technical Guideline Documents providing detailed information to industry on specific activities. These documents will assist implementation of activities as outlined in this Code; and
- Generic forms outlining data to be collected for various activities, to support those Technical Guideline Documents.

Industry will be encouraged to provide input into topics for inclusion and development of Technical Guideline Documents.

In conclusion, the Australian Grain Industry Code of Practice:

- was developed as a result of a call from GTA members, the broader grains industry and government;
- is a detailed description of the activities across the Australian grain supply chain that ensure the Australian grain industry delivers a quality product.
- enables end users, domestic and export, to buy with confidence understanding the quality systems in behind the Australian industry; and
- will encourage all industry participants to <u>continually</u> improve their processes.

Adherence to the requirements of the Code will be mandatory for GTA members from 1 July 2014.

- How can the government take best advantage of multilateral and bilateral trade negotiations (including through the World Trade Organization and through free trade agreements (FTAs) to advance the interests of the sector?
- How can engagement between industry and government on market access priorities for Australian agricultural products be improved, including to inform negotiations on FTAs?

The global grain trade, quite correctly, operates within a regulatory framework established by governments and international agreements, mostly set by UN agencies. These protocols were, in the main, established to protect food safety.

Also, many countries purchase their grain supplies via state owned/regulated buying agencies.

Australia has a proud record of compliance with internationally agreed protocols and it is incumbent on the Federal Government to continue to fund these lead agencies.

As organisation with support right across the grain supply chain, it is the intention of GTA to increase our engagement in Trade and Market Access activities during 2014/2015.

Currently, GTA places submissions to the following agencies on a regular basis to ensure that the global regulatory environment is appropriate and commercial sensitive.

Government Department	Agency	Industry involvement/responsibilities
Dept. of Agriculture		
	Codex Australia	Links to Codex Alimentarius Commission (Codex) which is the international food standards setting body recognised by the World Trade Agreements on Sanitary and Phytosanitary (SPS) and Technical Barriers to Trade (TBT) as being the reference point for food standards applied in international trade with the objectives of protecting the health of consumers and ensuring fair practices in the food trade.
	Agricultural Productivity Division	
	Crops, Horticulture and Wine	 Advice to and interface with industry on Government policy. In recent years primarily on actives associated with the deregulation process of the export wheat industry. Currently: Port Access Code of Conduct Wheat Industry Advisory Task Force Stocks Reporting – implementation of process
	Trade & Market Access, Bilateral Engagement, & Regional Trade Negotiations	 Biosafety Protocol Trade Agreements Various issues/projects relating to outcomes of G20 Agriculture Ministers
	National Residue Survey	Measurement and compliance with maximum Residue levels.
Dept. of Health	Office of the Gene Technology Regulator (OGTR)	Approval process for GM grain to be commercially released.
Dept. of Foreign Affairs and Trade		 Biosafety Protocol Trade Agreements

• What changes could be made to biosecurity arrangements, both in Australia and in other countries that would enhance global trade in agricultural products?

The increasing release of commercial GM crops worldwide is causing issues particularly when the new events are not approved in major export markets. This issue is being addressed in the Global Low Level Presence Initiative which aims to encourage countries to adopt policies/processes to ameliorate the trade inhibiting affects that occur.

Australia via the Dept. of Agriculture as noted above, are active participants in this dialogue. GTA supports this involvement.

• *How do we provide the appropriate biosecurity controls at minimum cost?*

The outcomes of the Grain Export Certification Reform Program substantially changed the manner that DA Biosecurity and industry conduct their phytosanitory certification processes.

Systems were streamlined, flexibility in operation substantially increased and costs reduced. The program operates on a full cost recovery basis and currently has over \$16 million in over recovered funds in the Income Equalisation Reserve.

The operation of DA Biosecurity and the operation of the GPPEICC demonstrate world best practice.

GTA supports these arrangements.

Conclusion

Grain Trade Australia welcomes the opportunity to further discuss this submission at a hearing.

Yours faithfully

Geoff Honey Chief Executive Officer