

Industry good functions necessary for an efficient and competitive Australian grain industry

Preparing the industry for the challenges ahead

2017 Grain Trade Australia Fellowship Scholar



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Executive Summary

Ten years on from the deregulation of the Australian grain industry, marketing conditions for Australian grain remain positive. This is indicated by the increasing premiums received for Australian grain over international grain price benchmarks and the large number of active grain buyers in the market. Australian grain continues to have access to all major markets and there appears to be no obvious signs of market failure.

However, the Australian grain industry is facing challenges to its international competitiveness. Some of these are coming from the rise of lower cost, international producers such as the Black Sea region, which may start to erode demand and premiums for Australian grain going into key markets, particularly Asia.

There are also local political and social challenges affecting Australian growers' ability to produce grain efficiently and sustainably. This includes the potential ban or restriction on the use of important genetics, chemistry and technology.

Growers and grower representative groups need to improve their engagement with the wider community if they are to meet the agronomical, political and economic challenges of the future. The industry needs to be well researched and informed, and present a united front with a consistent message. Improved funding structures may need to be considered for grower representative groups to ensure sufficient resources are available to meet these challenges and to minimise the free-rider affect.

To maintain competitiveness, the industry would benefit from continued investment in market access and market support activities, such as facilitating trade agreements, promoting Australian grain and after sales support. However, this investment needs to be more coordinated and strategic than it is currently. The industry would also benefit from increased availability of supply and demand information. Ideally, this would be done on a voluntary or industry regulated basis. A failure to do so may see more burdensome and less effective government regulations enforced.

The United States (US) and Canadian grain industries are dealing with similar challenges as Australia. Of the three countries, the US appears to provide the most complete delivery of industry good functions, according to the author. The Canadian and Australian industries are much less mature, more fragmented and have less access to funding compared to the US.

The delivery of industry good functions in Australia would be more efficient and effective if the providers specialised on certain functions rather than duplicating roles, as is currently occurring. This will require more coordination between providers and may involve the consolidation of industry organisations.

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Foreword

I grew up on the family farm in Mullewa, Western Australia (WA). I completed a Bachelor of Science (Agriculture) at the University of WA and also a Graduate Diploma of Applied Finance with Kaplan University.

My first job out of university was with the Australian Wheat Board (AWB) while the wheat market was still regulated. After deregulation, I moved into private consulting, assisting WA farmers to sell and hedge their grain, which I have done for the last eight years.

I am currently on the executive committee of the WAFarmers Grains Council and am a member of the Grains Research and Development Corporation (GRDC) Regional Cropping Solutions Network.

With 2018 marking ten years since the deregulation of the wheat market, I wanted to look at how the Australian grain industry was performing, with a focus on the marketing and exporting of Australian grain. My research included surveying Australian grain growers and traders to assess performance, and ascertain where there was room for improvement. I also surveyed industry good providers to see what functions they were performing and prioritising.



Figure 1: Author visiting the USDA, Washington DC.

To get a better understanding of how the Australian grain industry was performing relative to international competitors I travelled to the US and Canada to meet with growers, traders, industry representative groups and government organisations. This included visiting the United States Department of Agriculture (USDA), US Wheat Associates, US Grains Council, National Corn Growers Association, Canadian International Grains Institute, Canadian Grain Commission, Chicago Mutual Exchange, AgResources, Archer Daniels Midland, Bunge and Viterra, as well as a number of local farmers.

Acknowledgments

I would like to thank my sponsor, Grain Trade Australia, and Nuffield Australia for the opportunity, networks and guidance to research a topic I am very passionate about.

I would like to thank my colleagues at Planfarm for allowing me the time and for performing my duties while I completed my Nuffield commitments.

I would like to thank my clients for their patience and flexibility while I was unavailable.

And lastly, I would like to thank my wife for supporting me throughout the journey, especially during the grumpy days of my report writing, all while handling the added challenges of being a first-time mum.

I would like to acknowledge the time, assistance and guidance I have received from many people in the Australian grain industry, who regularly go above and beyond for the benefit of others. I would also like to acknowledge all of my US and Canadian hosts who gladly assisted me with my research, even though we are competitors in a global market.

I hope my research goes some way to repaying the generosity of all of these people and I warmly extend an offering of my assistance to them in the future.

Abbreviations

ABARES – Australian Bureau of Agricultural Resource Economics and Sciences

ABS – Australian Bureau of Statistics

AEGIC – Australian Export Grains Innovation Centre

AFI – Australian Farm Institute

AGEA – Australian Grain Exporters Association

AgForce – AgForce Queensland

AOF – Australian Oilseeds Federation

ASF – Australian Seed Federation

AWB – Australian Wheat Board

BA – Barley Australia

CBH – Cooperative Bulk Handling

CBOT – Chicago board of trade

CSIRO – Commonwealth Scientific and Industrial Research Organisation

DAWR – Department of Agricultural and Water Resources

DFAT – Department of Foreign Affairs and Trade

DPIRD – Department of Primary Industries and Rural Development

GGL – Grain Growers Limited

GIASA – Grain Industry Association of South Australia

GIAV – Grain Industry Association of Victoria

GIMAF – Grain Industry Market Access Forum

GIWA – Grain Industry of Western Australia

GPA – Grain Producers Australia

GPSA – Grain Producers South Australia

GRDC – Grains Research and Development Corporation

GSEP – Grain and seed export program

GTA – Grain Trade Australia

NFF – National Farmers Federation

NRS – National Residue Survey

NSWFarmers – New South Wales Farmers Association

PA – Pulse Australia

PGA – Pastoralists and Graziers Association

TFGA – Tasmanian Farmers and Graziers Association

US – United States

USDA – United States Department of Agriculture

VFF – Victorian Farmers Federation

WA – Western Australia

WAFarmers – Western Australian Farmers Federation

WAGG – Western Australian Grain Growers

WQA – Wheat Quality Australia

Objectives

The main objective of the research is to explore ways to improve the delivery of industry good functions in the Australian grain industry to ensure it is as efficient and competitive as possible. As a rising tide lifts all boats, an efficient and healthy industry should benefit all participants including growers, storage and handlers, traders, exporters and end-users. These benefits maybe tangible, in the form of higher prices and lower costs, or they may be intangible, in the form of less risk, stress and time investment.

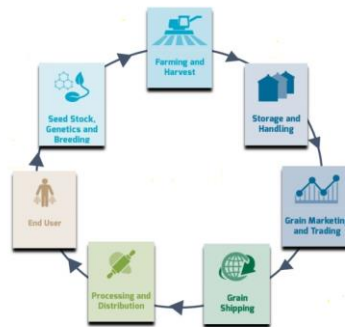


Figure 2: A schematic of the processes involved in marketing and exporting grain

Source: Australian Export Grains Innovation Centre (AEGIC) (2018)

Many of the organisations in the supply process are commercial and competitive organisations. However, there are also many industry good organisations, usually not for profit, that perform functions necessary for an efficient and competitive grain industry. This report will consider five key industry good functions and will assess how important they are to the industry, how they are currently being performed and how they could be improved.

The report will also consider the most efficient and effective way to deliver industry good functions given the limited funding and resources available. This includes looking at current function providers in Australia and providers in the US and Canada. The results of two industry surveys will also be published and referred to in the paper.

Chapter 1: Introduction

a) Defining post farm, precompetitive and industry good functions

Industry good functions can be defined as services to the industry that support trade and industry development for the net benefit of the industry. The functions can benefit the public and private entities, or a combination of both (Productivity Commission, 2010).

Post farm means that the industry good function is not associated with the day-to-day on-farm production of grain, although the impacts may lead to changes in farming practices.

Precompetitive means that the functions do not directly involve competitive, commercial activities such as grain storage, handling, accumulating, trading or exporting. However, these activities and organisations may be directly and indirectly affected.

The benefits achieved through industry good functions may be tangible, or intangible. The functions don't have to be limited to benefiting just industry, they can also benefit individual businesses and the wider community, generating a public benefit. Industry good functions can also be negative for some individual businesses but there needs to be a net benefit to growers and the industry in general to justify its provision.

b) The Australian grain industry- overview

The Australian grain industry produced on average 45.8mt per year in the 2010 to 2015 period, worth \$13.5b per year. Of this 32.7mt was exported or 71.4%, worth \$11.4b per year (GrainGrowers, 2016). In regards to how this compares on a global scale, Figure 3 shows the top 15 global producers of grain for the 2012 – 2017 period where Australia comes in eleventh, well behind US and China who both produced more than 500 MMT annually.

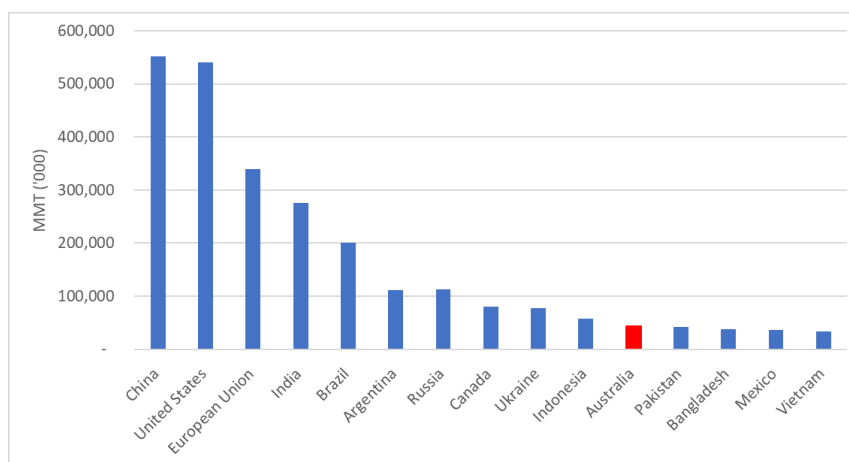


Figure 3: Top 15 global producers of all grains (average from 2012 to 2017, includes oilseeds and rice).

Source: USDA (2018)

When compared according to exports (Figure 4) Australia moves up the rankings slightly to eighth. The US leads the way with 133.4 MMT exported annually.

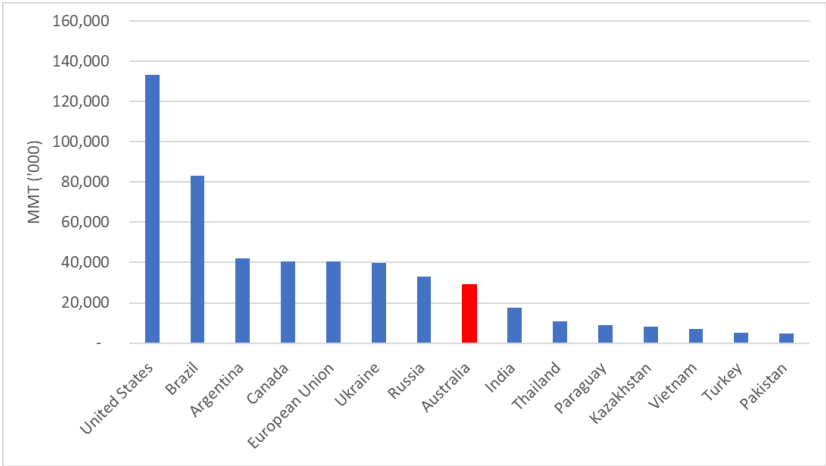


Figure 4: Top 15 global exporters of all grains (average from 2012 to 2017, includes oilseeds and rice).

Source: USDA (2018)

Wheat is the main grain crop grown in Australian accounting for 56% of production, followed by barley (18%), canola (8%), sorghum (4%), oats (3%) and pulses (5%) (GrainGrowers, 2016). The top five importers of Australian grain are all Asian nations (table 1). This reflects the freight advantage Australian exporters have to the Asian region and also their preference for Australian grain, particularly white wheat for making noodles and, in some cases, bread (AEGIC, 2018). The Middle East is also a major market for Australian wheat and barley.

Destination	2008-09	2009-10	2010-11	2011-12	2012-13	Average
Indonesia	2.7	2.9	3.9	4.1	4.4	3.6
Japan	2.9	2.8	2.6	3.4	2.8	2.9
China	0.9	2.0	1.9	3.6	3.2	2.3
Vietnam	0.9	1.3	2.0	2.7	1.5	1.7
Korea, Rep. of	0.7	1.0	1.5	2.7	1.8	1.5
Saudi Arabia	1.5	0.8	0.8	2.2	1.1	1.3
Iraq	0.5	0.6	0.9	0.5	1.8	0.9
Malaysia	0.8	0.8	0.9	0.9	0.9	0.8
Philippines	0.3	0.2	0.8	1.7	1.1	0.8
Yemen	0.7	0.6	0.8	0.8	0.7	0.7

Source: ABARES

Table 1: Major destinations for Australian export grain (MMT)

Source: White, Carter and Kingwell (2015)

In regards to Australia’s competitiveness of selling wheat into Asia, Australia can produce and land grain into Indonesia cheaper than the US, Canada and the EU but is more expensive than the emerging origins of Eastern Europe and South America (CBH, 2018). Australia also has a higher yield variation compared to many of the major competitors (Herbert, 2017).

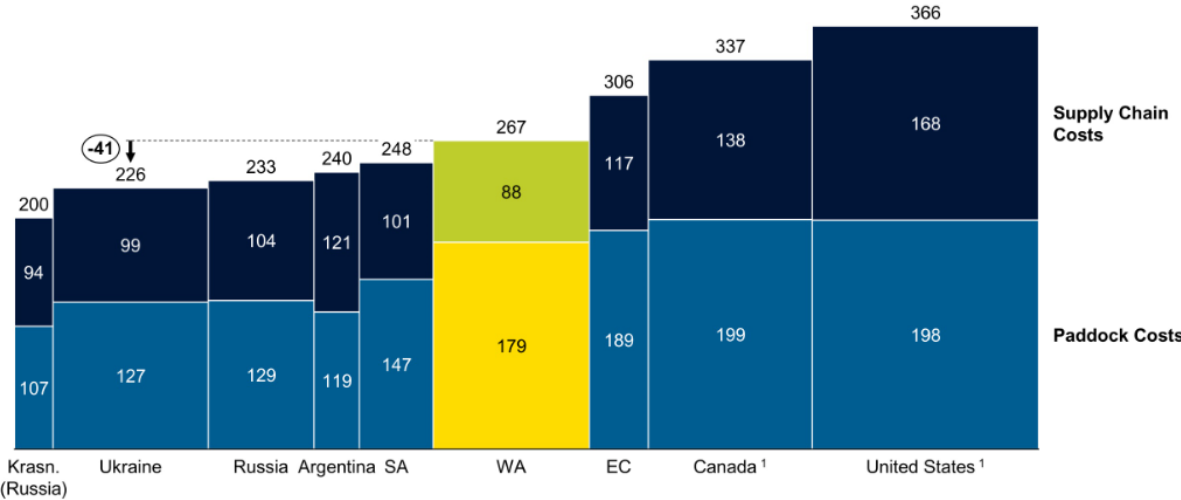


Figure 5: Wheat export cost curve in contestable markets (AUD/tn delivered Indonesia)

1. USA and Canada excludes subsidies.

Source: CBH Analysis, 2018

c) Evolution of the Australian grain market and delivery of industry good functions

Prior to the deregulation of the grain industry, monopoly exporters performed many industry good functions on behalf of the industry. When the market deregulated, most of these functions stopped being performed by the monopoly exporters as there was less economic benefit for the organisation to continue paying for them (Allen et al, 2008). There was also a growing frustration from producers who exported grain and paid for these functions, with producers who delivered predominantly to the domestic markets who also benefited from the functions without paying for them. This inequitable distribution of costs when providing industry good services is referred to as the free-rider affect (Allen et al, 2008). A list of industry good functions and associated costs provided by the AWB is displayed in Figure 6.

Industry good service	Average annual expenditure
Industry strategic planning and execution	\$2 925 478
Wheat receival standards	\$47 000
Wheat classification panel	\$452 290
Crop shaping	\$30 504
Australian wheat crop report	\$1 493 000
Technical market support	\$1 677 760
Promotion of Australian wheat industry	\$730 040
Policy and regulatory advocacy	\$3 162 523
Research and development	\$3 162 523
Total	\$10 488 090

Source: AWB

Figure 6: AWB expenditure on industry good functions (2003/04 – 2005/06)

Source: Allen et al (2008)

d) Measuring competitiveness of the Australian grain industry

Basis is a good indicator of the competitiveness of Australian grain on the international market against other origins. Basis is the price difference between the international price, for wheat this generally the Chicago Board of Trade (CBOT) price, and the domestic price of grain paid to Australian farmers, also referred to as the cash price.

Basis = Domestic Price - International Price

Basis encompasses a number of factors, including supply chain efficiencies into international markets, quality premiums received in those markets, competitiveness of demand and exportable surplus of Australian grain.

Since deregulation, the basis for wheat has improved steadily (Figure 7). This indicates that the price Australian wheat producers are receiving relative to the international benchmark price is improving. Although it is not possible to determine which factors have contributed to the improvement in price, it does indicate that Australian farmers have benefited from deregulation and the introduction of competition. It also indicates that there has not been a major market failure of the grain industry since deregulation.

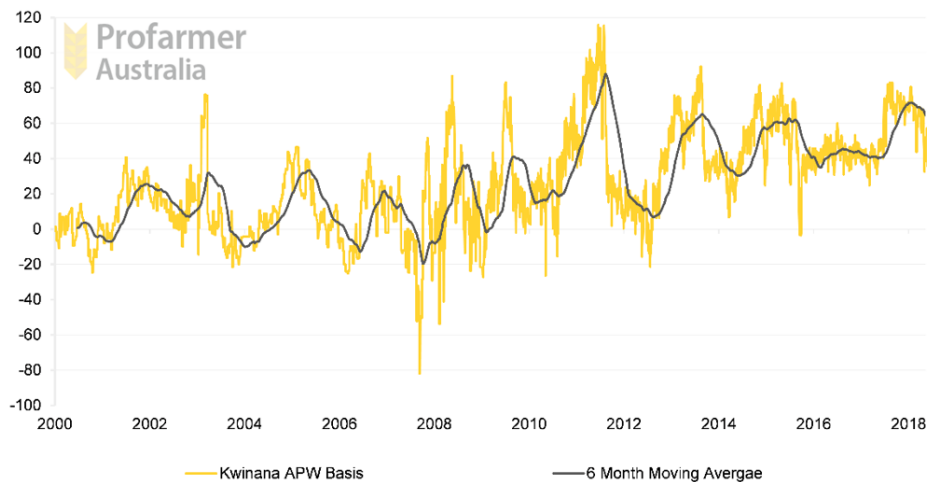


Figure 7: Basis (premium) for APW wheat in the Kwinana port zone over CBOT

Source: Profarmer (2018)

However, it may be too early to expect to see evidence of material costs being suffered by the industry from an under-provision of industry good functions, since these benefits are long-term in nature (Productivity Commission, 2010). Historical basis also does not show the potential premium that buyers of Australian grain might be willing to pay above what they are already paying. This is known as the consumer surplus (Investopedia, 2018).

e) Delivery of industry good functions in Australia, US and Canada

Australia

There are three national grower organisations who are predominantly funded by, and represent farmers;

- National Farmers Federation (NFF)
- Grain Growers Limited (GGL)
- Grain Producers Australia (GPA)

There are also state grower representative groups. For example, in WA, there are:

- Western Australian Farmers Federation (WAFarmers)
- Pastoralists and Graziers Association (PGA)
- Western Australian Grain Growers (WAGG)

Until July 2018, there were two organisations that represented and were predominantly funded by traders and exporters which focus on supporting the accumulation, trading and exporting of grain. These two organisations have since merged:

- Grain Trade Australia (GTA)
- Australian Grain Exporters Association (AGEA)

There are four national grain commodity groups who are funded by a combination of growers and traders and work to support the trade of each of the individual commodities:

- Wheat Quality Australia (WQA)
- Barley Australia (BA)
- Australian Oilseeds Federation (AOF)
- Pulse Australia (PA)

Most states also have a state-based trade representative group. For example, in WA there is the Grain Industry of Western Australia (GIWA). There is also a focus group called the Grain Industry Market Access Forum (GIMAF) that works on technical trade issues.

The Australian Bureau of Statistics (ABS) and Australian Bureau of Agricultural Resource Economics and Sciences (ABARES) are government organisations that are responsible for the collection and reporting of agricultural data, including supply and demand information. The Department of Agricultural and Water Resources (DAWR) is a federal department that run the Grain and Seed Export Program (GSEP) and the National Residue Survey (NRS), although the latter is funded by growers. The Department of Foreign Affairs and Trade (DFAT) assists with international relations and trade. There are also state government agricultural departments. For example, WA has the Department of Primary Industries and Rural Development (DPIRD).

Finally, there are organisations that are funded by a range of investors. GRDC is predominately grower funded with significant government contributions. The majority of the funds are invested in improving on farm production and profitability but they also help fund the AEGIC, which provides technical support to markets, market research and technical analysis of grain.

The complex relationships between these different organisations, as depicted in Figure 8, have caused fragmentation, and high levels of duplications and gaps, leading to many functions being performed inefficiently and ineffectively (GrainGrowers, 2016).

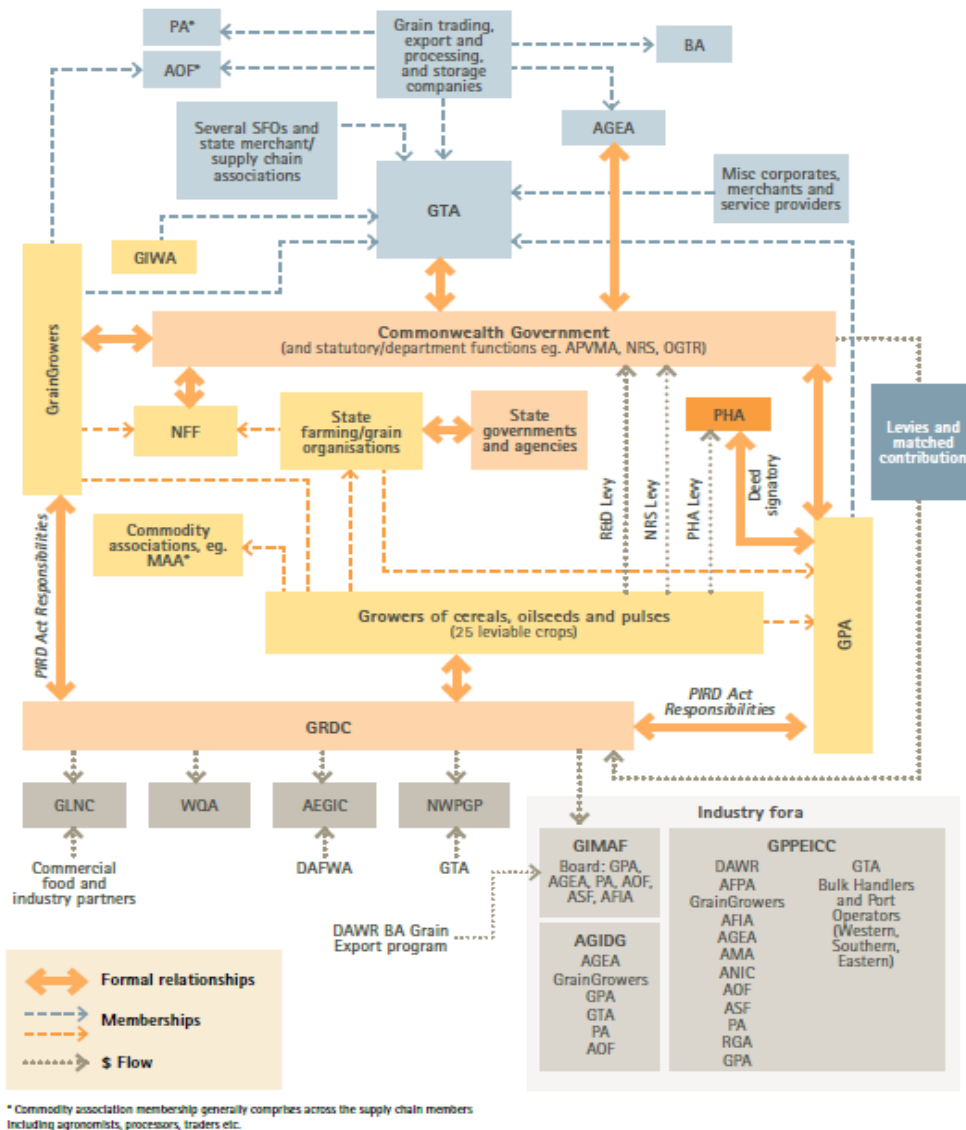


Figure 8: Australian grains industry organisations and their primary relationships

Source: GrainGrowers (2016)

In an attempt to better coordinate the industry and potentially form one peak organisation to provide most of the industry good functions, the Australian Grains Industry Discussion Group (AGIDG) was formed in 2015. This discussion group involves a number of the main industry good providers and is still working towards a more coordinated and consolidated industry.

US

The US industry good system is dominated by the USDA which is responsible for developing and executing federal laws relating to agriculture. Some of the services performed by the USDA in relation to grain are:

- Facilitating the marketing of US agricultural products.

- Providing information, statistics and research.
- Subsidising crop insurance programs.
- Promoting market access for US grain.
- Inspecting, testing and verifying grain.

Source: Facts sheets provided by O'Meara, Crutchfield & Hawthorn (2017)

Outside of the USDA, the industry good sector is generally divided into different grain types. For each, there are generally two organisations; an advocacy organisation, that can lobby on behalf of the growers, and a marketing organisation, that provides market development and support.

The marketing organisations include the US Wheat Associates, the US Grains Council and the United States Soybean Export Council. These organisations have offices and laboratories in the US and overseas to promote trade and provide technical support. For example, Kansas Wheat Innovation Centre in Kansas and the Wheat Marketing Centre in Oregon provide these functions for red and white wheat respectively (Tracy and Peterson, 2017). These organisations receive most of their funds through the US Checkoff program.

The Checkoff program is a mandatory levy paid by US grain producers on each tonne of grain and ranges from 0 to about 1% per tonne depending on the state and the grain (Bertel, 2017). Given the US produces more than 500MMT annually, this program creates enormous revenue streams for industry. These levies are matched in part by US government grants. The money raised is invested in different areas of industry, from increasing crop production and quality, through to marketing. The checkoff cannot be used to promote individual organisations and brands or be used for lobbying activities (Bertel, 2017).

In regards to lobby and advocacy, US grain growers are represented by a number of organisations including the National Association of Wheat Growers, the National Corn Growers Association and the American Soybean Association. There are also industry-wide organisations such as the American Farm Bureau Federation. These have registered lobbyists that work on issues such as the Farm Bill policy, trade policy, energy, tax reform, environmental regulations, transport, infrastructure requirements and biotech policy (Salmonsens, 2017). As the money from the checkoff programs cannot go to these activities, these organisations raise funds via voluntary memberships and fee for services (Bertel, 2017).

There are two trader funded organisations, North American Export Grain Association and National Grain and Feed Association. These work towards creating an open, competitive and commercial marketplace. Their roles include providing contract specifications and arbitration, industry advocacy and government lobbying. These two are collocated and share administration and other resources (Kemp and Olson, 2017).

Canada

Canada has a system similar to the US with checkoffs for each grain being collected and then invested back into activities to improve the particular grain (Lavergne, 2017).

The Canadian marketing system, like in Australia, was heavily regulated with the single desk exporting arrangement for wheat ending in 2015. This means the Canadian industry good system is still maturing and they are yet to form strong, coordinated organisations (Lavergne, 2017).

The Canadian International Grains Institute, which aims to drive the development and utilisation of Canadian grain and grain products, is jointly funded by a number of state checkoffs, the Canadian Government and some commercial traders (Burrows, 2017).

There are two main government agencies involved in grain. The Canadian Grain Commission is a government department responsible for the regulation of the grain handling industry. Services they provide include variety classifications, quality inspection and certification, research and reporting (Lavergne, 2017). Statistics Canada collects and reports on the supply and demand of Canadian grain.

Although the industry is generally fragmented, there is some collaboration at a national level such as Cereals Canada and the Canada Grains Council, which is jointly funded by a number of provincial grain organisations and industry participants. There is also some collaboration at a provincial level, for example the Manitoba Wheat and Barley Association's merged and Alberta Wheat and Alberta Barley share an office and many resources (Davies, 2017 and Steve, 2017).

Chapter 2: Grower, trader and industry survey methods

Two surveys were carried out to help determine the importance, performance and provisions of ten industry good functions in the Australian grain industry. The functions were:

- Representing and advocating on behalf of industry
- Researching and recommending improvements to industry
- Developing new markets and promoting Australian grain
- Supporting and maintaining existing markets
- Providing information about the supply and demand of Australian grain
- Providing contract standards and dispute resolutions for buying and selling of grain
- Setting grade standards for buying and selling of grain
- Ensuring biosecurity and quarantine
- Testing and classifying new varieties
- Ensuring the marketplace is fair and transparent for all participants

a) Grower and trader survey

Between 3 April and 31 July 2017, a survey was carried out, asking growers and traders to rate how important the ten industry good functions were to their business and how well they thought the functions were currently being provided. The growers and traders were also asked questions on the overall structure of the industry good landscape and delivery of industry good functions.

This survey was performed using Survey Monkey online platform and invitations were sent out by the author via email and Twitter account. Third parties, in particular industry organisations, were also asked to send the survey to their members but it is not known which of the organisations participated.

Respondents included 176 growers and 24 traders. A breakdown of the state in which the respondents predominantly operated are shown in Figures 9 and 10 below.

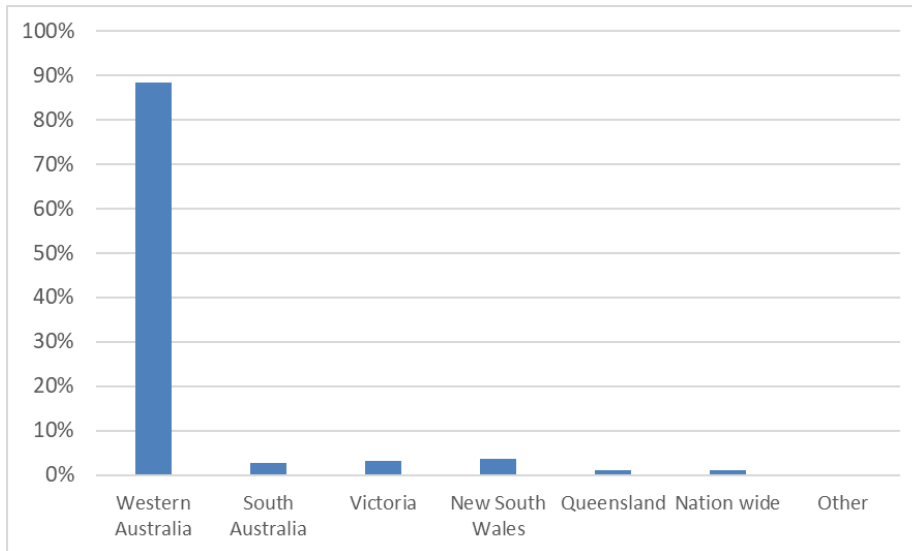


Figure 9: The state where grower respondents predominantly operate.

Source: Author (2017)

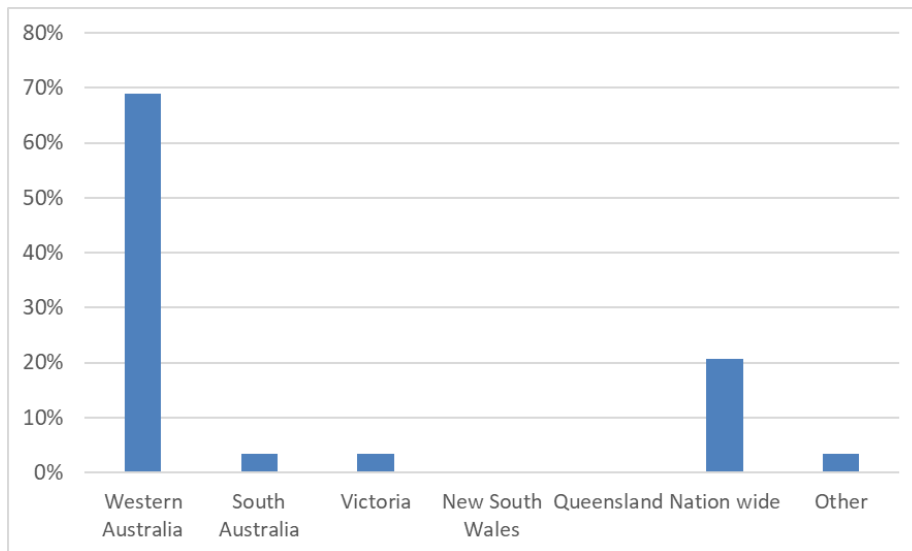


Figure 10: The state where trader respondents predominantly operate.

Source: Author (2017)

b) Industry good function providers survey

In February 2018, a survey was carried out of 34 organisations that provide industry good functions to the Australian grain industry. The list of survey organisation is provided in Table 2. Each organisation was asked to rate their own involvement in each of the ten functions. The organisations were grouped according to their primary funding source which was used as an indication of who the organisation represented. The results were not weighted according to the resources of the organisation and the individuals' ratings were not critiqued, so it was left up to each entity's perception of their own involvement.

This survey was performed via email and in person, with invitations sent to the relevant organisations. Not all industry good function providers were included in the survey.

Organisation	State or National	Primary Funding Source	Organisation	State or National	Primary Funding Source
ABARES	National	Government	PGA	WA	Grower
ABS	National	Government	TFGA	TAS	Grower
AEGIC	National	Government	VFF	VIC	Grower
DFAT	National	Government	WAFarmers	WA	Grower
DPIRD	WA	Government	WAGG	WA	Grower
AgForce	QLD	Grower	WQA	National	Grower
BA	National	Grower	AFI	National	Other
CBH	National	Grower	CSIRO	National	Other
DAWR (GSEP)	National	Other	GIWA	WA	Other
DAWR (NRS)	National	Grower	GLNC	National	Other
GGL	National	Grower	AGEA	National	Trade
GPA	National	Grower	AOF	National	Trade
GPSA	SA	Grower	ASF	National	Trade
GIMAF	National	Grower	GIASA	SA	Trade
GRDC	National	Grower	GIAV	VIC	Trade
NFF	National	Grower	GTA	National	Trade
NSWFarmers	NSW	Grower	PA	National	Trade

Table 2: Industry good providers that participated in the survey

Source: Author, 2018

Chapter 3. Delivery of five key industry good functions in Australia

Function 1: Representing and advocating

Representing and advocating on behalf of the Australian grain industry involves supporting industry participants and promoting industry to the wider community. The intention is to strengthen cohesion within industry and to educate and influence voters, politicians and consumers so that they are more likely to support the industry.

The function of representing and advocating on behalf of industry was ranked highest by growers and traders in the survey.

Australian voters, politicians and consumers can have a large say in how Australian grain is grown, transported and marketed. This can include areas such as use of chemicals, adoption of gene-editing technology, investment in infrastructure, environmental regulations and taxes, access to water, industry regulations and trade relations (GRDC, 2018).

The social and political debate regarding many aspects of food production are heavily influenced by pseudoscience and ‘alternative facts’ that support preconceived beliefs (GRDC, 2018). Ethical preferences (e.g. local, organic, non-GM or non-meat) are also having a greater impact on global food consumption trends (GRDC, 2018).

Representing and advocating on behalf of the industry is a high priority, as indicated by Figure 11. Changes in politics, demographics, social media and food trends are creating many challenges for food producers.

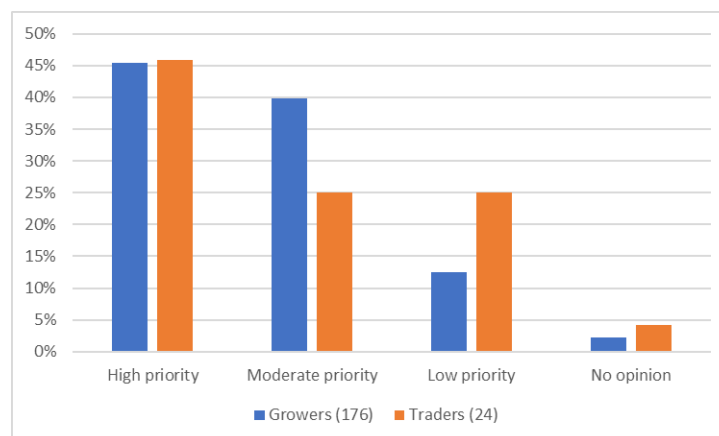


Figure 11: Priority level according to Australian growers and traders of politically representing and advocating on behalf of the industry.

Source: Author (2018)

For example, genetically modified (GM) canola cannot be grown in South Australia due to a state moratorium. This is despite research that indicates that GM canola is more profitable for farmers and better for the environment through a reduction in pesticides, herbicides and fertiliser compared to conventional canola (Biden, Smyth and Hudson, 2018). Gene-editing (GE) technology, such as CRISPR, is likely to supersede genetic modification but there is still yet to be broad acceptance by consumers and governments of GE technology.

The safety of glyphosate, the active ingredient of Roundup, is currently being debated in many countries. This is despite glyphosate being considered to be one of the cheapest, highly effective, safest and most environmentally friendly herbicides in the world (Stokstad, 2016). If glyphosate were banned it would potentially reduce yields, increase food prices and cause greater damage to the environment and human health, yet calls to ban glyphosate persist (Stokstad, 2016).

In the US, one of the biggest political topics is trade relations and free trade agreements. The US have recently withdrawn from the Trans-Pacific Partnership, are looking to renegotiate the North American Free Trade Agreement and are in a tariff war with China and the European Union. These negotiations will have major impacts on demand for US grain and therefore prices received by US farmers.

If Australia introduced bans, taxes and restrictions without good cause, and competing nations didn't, then Australian agriculture would be disadvantaged. All of these issues are determined by governments and influenced by voters and consumers.

Due to the politicised nature of many of these issues, the provision of this function will need to occur almost solely by grower organisations and with grower funds. Australian grain growers and the Australian grain industry needs to focus on ensuring they have access to the best tools and technology required to produce and transport the highest quality grain to market without unnecessary government restrictions, bans, compliance and taxes.

Even though 12 grower and five trade organisations stated that they are highly involved in this function (Figure 12), and growers and traders believe that it is a moderate to high priority, it is still not being performed well, as indicated by Figure 13. This may be due to too many organisations operating in this space competing for funding and exposure, which is reducing their capacity to perform the role. It may also indicate that there is a lack of cohesion and

consistency between organisations which is causing fragmented and conflicting messages, thereby confusing the target audience. To improve the delivery of this function, there needs to be more cohesion and cooperation, with potential for some consolidation.

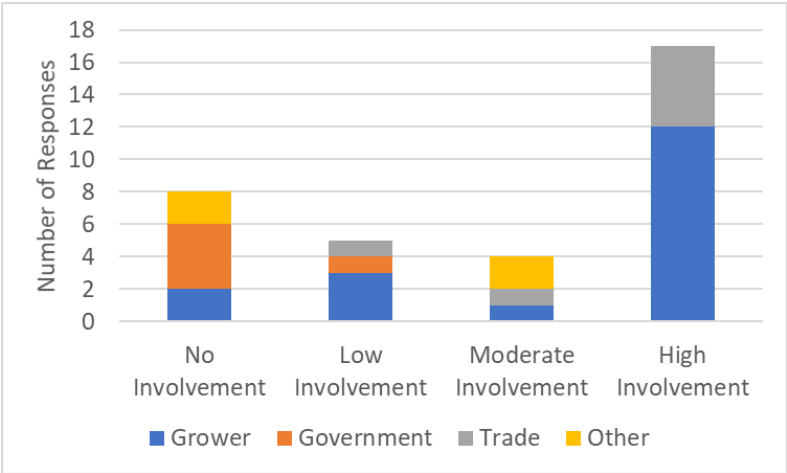


Figure 12: Organisations involved in the function of representing and advocating on behalf of the industry.

Source: Author (2018)

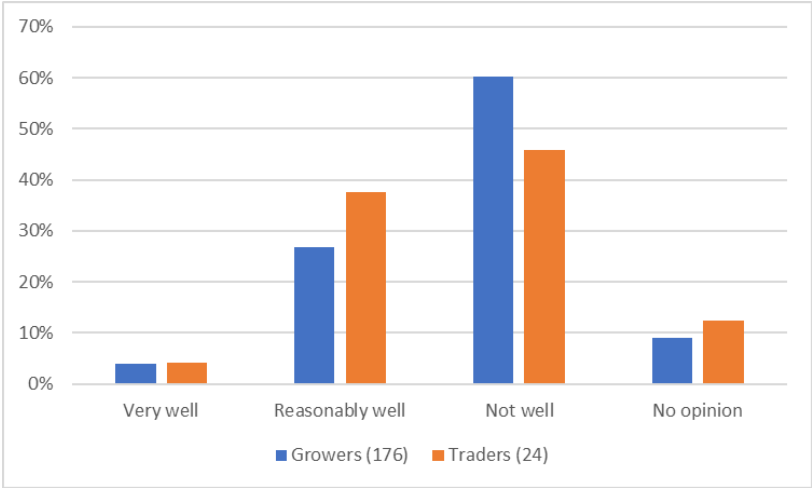


Figure 13: Current performance according to Australian growers and traders of representing and advocating on behalf of the industry.

Source: Author (2018)

Function 2: Researching and recommending improvements

The industry good function of researching and recommending improvements to the industry involves analysing the state of the industry with information, then feeding into many other industry good functions. For example, representative and advocacy groups may use information to prevent the ban of an important herbicide or a storage and handling company may use information to invest in more rail assets.

Research and recommending improvements to the industry is regarded as moderate to high priority for the industry, as indicated by Figure 14.

Many potential areas for improvement in the grain industry that require significant research also have long time horizons, affect multiple areas of the industry and wider community. These include climate change policies, environmental protection policies, biotechnology advancements and infrastructure investments.

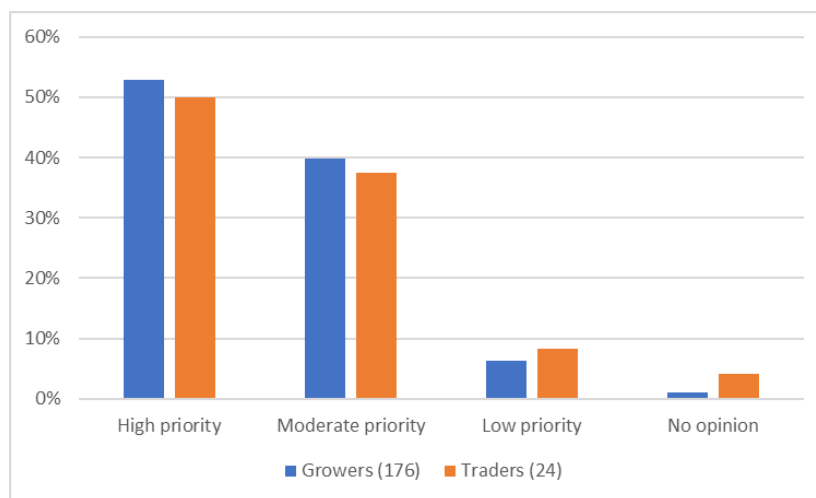


Figure 14: Priority level according to Australian growers and traders of researching and recommending improvements to the industry.

Source: Author (2018)

An example from the US grain industry is the decay of their locks and dams on major rivers which are used for transport. Coupled with stricter environmental laws, the capacity to move grain from the central grain growing areas to ports using rivers has been severely reduced. This has pushed more grain onto more the expensive modes of transport of road and rail. However, little research was done on the possible effects of changing the laws or leaving the infrastructure to decay until it was too late (Bertels, 2017). This problem took decades to arise and it will take decades to resolve. Whereas in Australia, research has been performed into the industry's supply chain costs by AEGIC and made publicly available. This information can

then be used by industry groups, governments and private companies to determine areas for potential investment and to shape policy.

Climate change and environmental degradation are other areas that have long time horizons with a lot of uncertainty surrounding the impacts. There are concerns that new laws and taxes enforced by government onto grain growers may make them uncompetitive in a global grain market. For example, the Canadian province of Alberta has implemented a carbon tax which the other provinces have not. This may make the Albertan grain produces less competitive. Adequate research is required to ensure that ineffective laws and taxes aren't passed that reduce competitiveness of the Australian grain industry with no significant benefit to the environment.

Figure 15 illustrates that the function of researching and recommending improvements to the industry is being performed reasonably well to not well. This is despite a total of 23 organisations stating that they have a moderate to high involvement in this function. Similar to the previous function, the delivery of this function may be improved if fewer, more specialised organisations were involved.

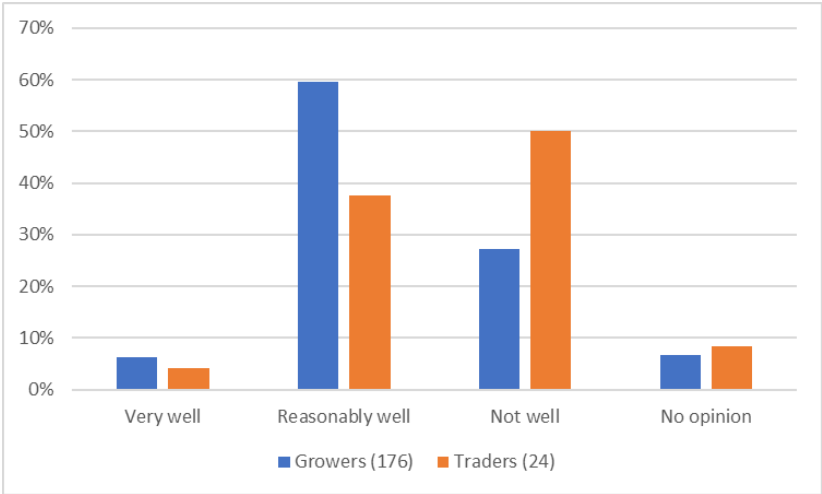


Figure 15: Current performance according to Australian growers and traders of researching and recommending improvements to the industry.

Source: Author (2018)

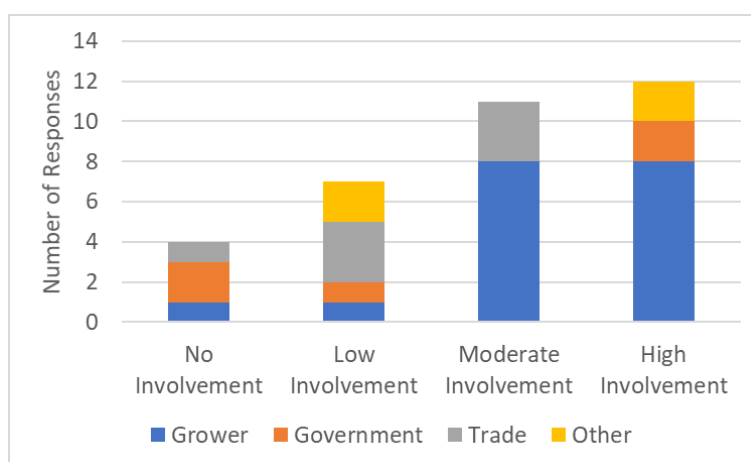


Figure 16: Organisations involved in the function of researching and recommending improvements to the industry.

Source: Author (2018)

Function 3: Developing new markets, promoting Australian grain

Developing new international markets occurs before trade commences and can include government trade agreements, market research, initial promotion of grain type and origin, and facilitation of buyer-seller relations. The Productivity Commission has stated that the performance of the Australian bulk wheat export industry is directly dependent on market access and world trading conditions (Productivity Commission, 2010). Promotional activities are also important in the early stages of gaining market access as it highlights key advantages of Australian grain over international competitors (Productivity Commission, 2010).

Developing new markets can involve the creation of entirely new products. The biofuel industry, which includes converting grain into fuel, is a good example of new product that has generated big benefits to the grain industry. The US Corn Growers Association was instrumental in the early stages of developing the US ethanol industry by bringing key players together and by maintaining government and community support, particularly in the form of the renewable fuels standard program (Schad, 2017). Now roughly 40% or 150 MMT of US corn is converted into ethanol (USDA, 2018).

The expanding health food industry is another area of growth for new and niche grain products. The economic benefits from successfully producing and marketing these, usually at premium prices, can be great. The Chia Company (<https://thechiaco.com/au/>) is an example of an Australian business that has tapped into this growing health food trend.

Opening up new markets for Australian grain is regarded as a moderate to high priority for the industry, as indicated by Figure 17. It increases demand and premiums for Australian grain, and also spreads risk by having alternative markets.

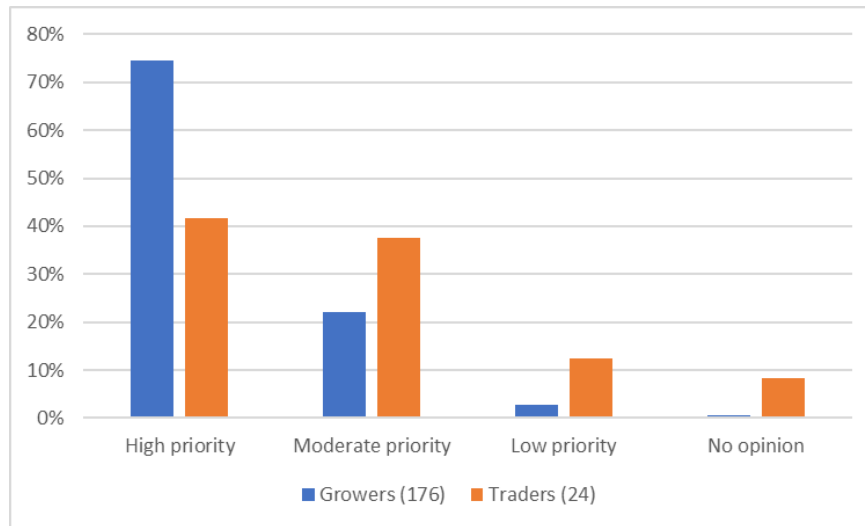


Figure 17: Priority level according to Australian growers and traders of developing new markets and promoting Australian grain.

Source: Author (2018)

Trade advocacy has a strong public good element and gives rise to significant spill over benefits to other export industries and the broader community, therefore tax payer funding for this function is appropriate (Productivity Commission, 2010).

Most traders are unlikely to invest heavily in the function of market access as they are not limited to trading one origin of grain. So, if a market has a preference for a different origin of grain an international trader can still actively trade into that market.

For these reasons the government should be the main investor in the provision of market development and promotion with support from growers and traders where appropriate.

Currently, there are 16 organisations that state they have a moderate to high involvement in developing new markets and promoting Australian grain, nine of which are grower organisations (Figure 18).

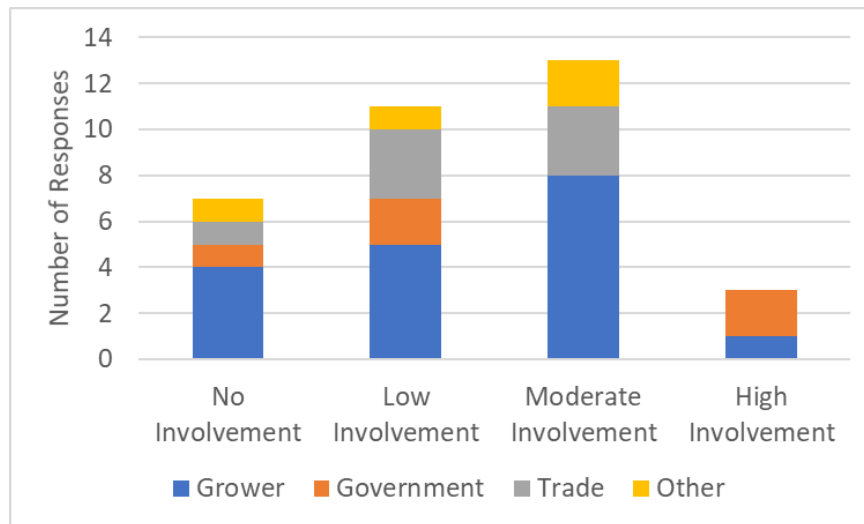


Figure 18: Organisations involved in the function of developing new markets and promoting Australian grain

Source: Author (2018)

Despite the high number of organisations involved, traders and growers believe the function is being performed reasonably well to not well (Figure 19).

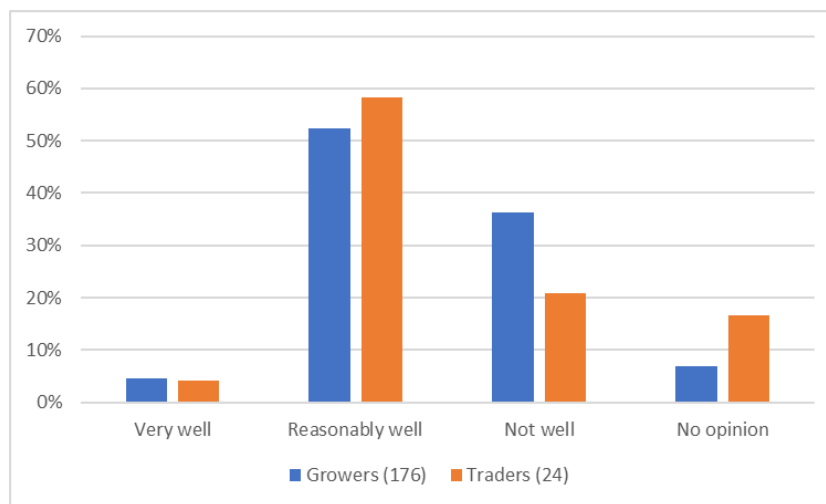


Figure 19: Current performance according to Australian growers and traders of developing new markets and promoting Australian grain.

Source: Author (2018)

The provision of this function maybe improved if there were less organisations involved, especially grower organisations. This would streamline the process and improve quality and clarity of communications between producers, traders, end users and plant breeders. It would also allow other organisations to focus their limited recourses on other high-priority functions.

In regards to new products, such as the biofuels and health food industry, the industry would benefit from more research and seed funding. Both these markets have grown rapidly and could provide Australian grain growers with alternatives for their produce. They can also involve value-adding domestically, creating more benefits to the wider public and Australian economy, particularly in rural areas.

Function 4: Supporting and maintaining existing markets

Maintaining and supporting existing markets occurs once trade is already taking place. It can include ongoing promotional activities, branding, quality assurance programs, a continued strengthening of buyer-seller relations, and technical support.

Technical support refers to assisting buyers and end users to optimise the value they get from Australian grain, for example assisting millers to set up their mills to get the highest flour production or working with bakers to improve the quality of bread produced.

Branding is an important component of promotion and can help protect the quality reputation of Australian grain and grain products (Productivity Commission, 2010).

Export testing and certification of quality helps protect the brand and reputation of the exporting nation. In the US and Canada, this is mandatory and is carried out by government bodies. Australia does not have a mandatory testing program. Instead buyers rely on bulk handlers and private organisations to test and certify their own export shipments.

Crop quality reporting involves producers reporting to the buyers the expected quality of grain that will be or has been harvested. In the US this function is performed by the grain commodity groups such as US Grains Council and US Wheat Associates. In Australia this function is being carried out by major individual storage and handling companies, including CBH, GrainCorp and Glencore.

Crop shaping activities provide market signals along the supply chain back to plant breeders and growers to ensure the market is producing the type, quality and volumes of grain required by the customers and end-users. This also includes determining and implementing receival standards, information sharing and price incentives to producers, such as oil bonuses for canola (Productivity Commission, 2010).

Supporting and maintaining existing markets is a moderate to high priority for the industry, as indicated by Figure 20.

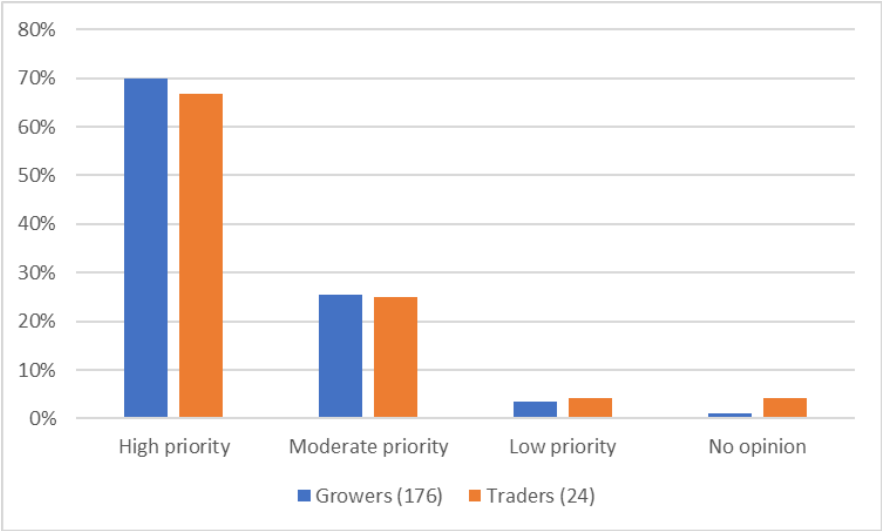


Figure 20: Priority level according to Australian growers and traders of supporting and maintaining existing markets of Australian grain.

Source: Author (2018)

Traders and growers agree that this function is currently being performed reasonably well, as indicated by Figure 21.

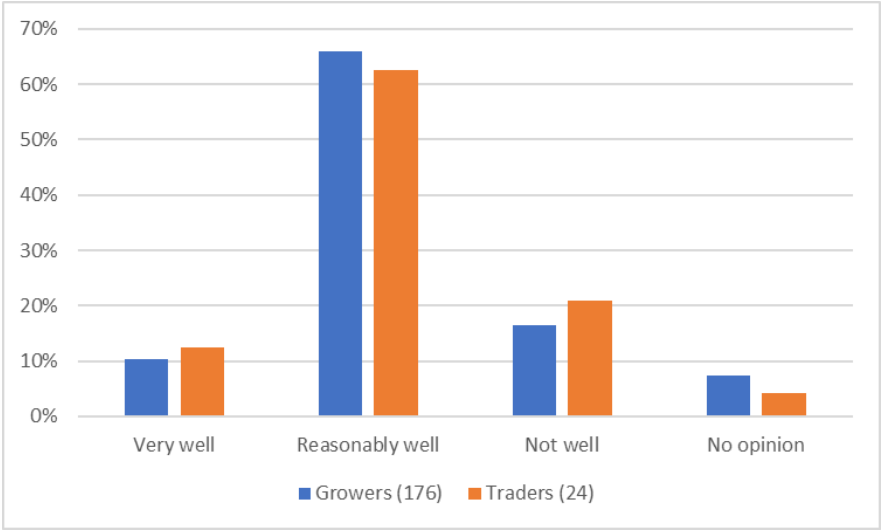


Figure 21: Current performance according to Australian growers and traders of supporting and maintaining existing markets of Australian grain.

Source: Author (2018)

The need for technical support for many international customers of Australian grain may be diminishing as equipment and techniques in Asia for milling, brewing and baking continue to improve (Dean McQueen, Viterra, 2017). However, technical support is still beneficial to many

mills and bakers to improve grain performance (Carter, 2018). Influencing processes to favour Australian grains and flours could be beneficial to the Australian grain industry as it would lock end users in to purchasing (Carter, 2018).

The level of crop quality reporting provided by the major bulk handling companies appears to be sufficient. However, the benefit to industry from providing end users with an independent national report, similar to that of the US Wheat Associates, may be high. It may also improve data collection for long term crop shaping activities. However, benefits from creating a national crop quality report may not be great enough to get major storage and handlers to voluntarily work together without some level of regulation.

It is important receival standards remain consistent across industry to protect quality and ensure consistency of blending and shipping across Australia (Wheat Industry Expert Group, 2008) and that it is fair for buyers and sellers. Receival standards are predominantly overseen by GTA, however, CBH does use its own standards, most notably for barley. Having more grower involvement in the process of setting standards rather than leaving it solely up to the trade or the storage and handling operator would help ensure transparency of the process and fairness to all. However, to have more involvement in setting receival standards growers may have to be prepared to help fund a greater proportion of the costs.

There have been some quality complaints from international buyers, for example the presence of chemical residues on barley, but when these arise the bulk handlers have up until now been able to resolve the issues without any long-term impact to the Australian market. Growers may also need to be more involved in these issues as many will arise from on-farm practices such as late applications of in crop chemicals.

Involving an industry or government organisation to oversee testing and certification of export shipments could bring additional quality control and be seen as valuable to some traders and buyers. However, many exporters believe this will add costs and complications to the supply chain which will ultimately reduce the price paid to growers.

Figure 22 shows that 24 out of 34 industry organisations state that they are moderately to highly involved in the function of supporting and maintain markets, of which 14 are grower organisations. This would appear to be an excessive number of organisations involved in performing these functions, particularly by grower organisations. The Wheat Industry Expert Group also suggested that supporting and maintaining existing markets is predominantly an

after sales service and therefore should be performed predominantly by the bulk handlers, traders or trader representative organisations (Wheat Industry Expert Group, 2008).

If these functions were left to the trade to manage, this would free up grower resources on delivering other high-priority functions. By reducing duplication costs there should also be a downstream benefit to growers as savings are passed to growers. Where there is a gap in the functions that the trade cannot or are not willing to perform then grower organisations may need to step in. For example, long-term crop shaping activities such as variety testing and providing feedback to plant breeders will most likely need to be performed by grower organisations as there is little benefit to the traders.

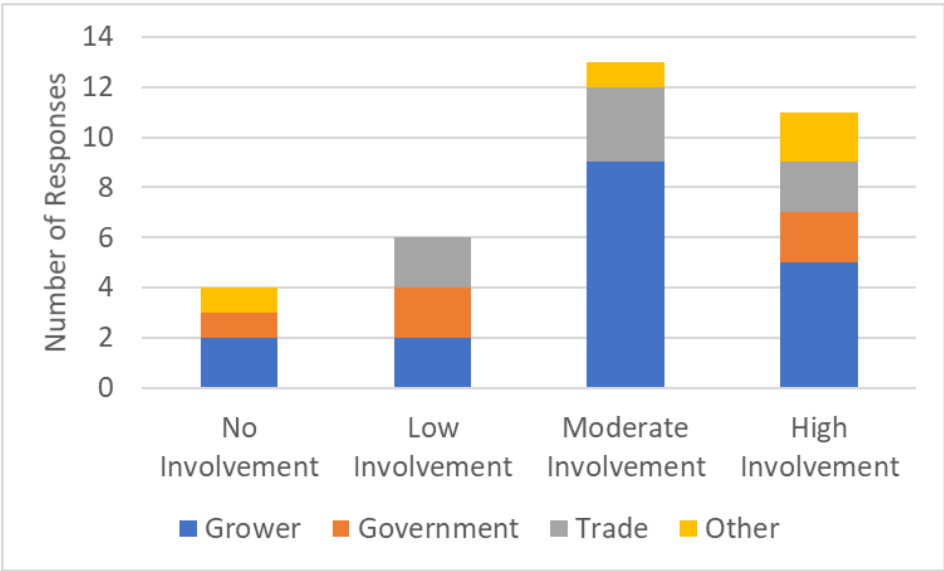


Figure 22: Organisations involved in the function of supporting and maintaining existing markets

Source: Author (2018)

Function 5: Availability of supply and demand information

A major concern regarding availability of supply and demand information and the impact on the marketplace is that if some participants have greater access to information than they may have advantage over others. For example, if a buyer has more information than a grower then the buyer may buy their grain at lower price than if the grower had access to the same information. Alternatively, if one buyer has more information than other buyers then the buyer with more information may be able to outcompete the other buyers, leading to some exiting the market and reducing competition, with a number of potential flow on effects including lower long term prices.

Another concern regarding availability of supply and demand information is how it affects the ability of businesses to run efficiently. For example, if a farmer doesn't know at seeding that there is going to be an oversupply of a certain grain then they may seed that grain even though it may not be the most economical crop. Likewise, if a feed lotter doesn't know the amount of grain in storage in their area they may decide to reduce their herd size even though it may have been more economical to maintain or even increase their herd size.

Since deregulation there have been reports into the availability of supply and demand information of Australian grain, the role the government and industry should play, and who should pay. The Wheat Industry Expert Group (2008), the Productivity Commission (2010) and the ACCC (2017) have all called for great access to supply and demand information and equal access for all for participants to ensure an efficient and fair market.

However, the Independent Wheat Market Information Study (2011) and the Wheat Industry Advisory Taskforce (2012) found there were no signs of market failure due to a lack of information and that the large majority of industry stakeholders were satisfied with the availability of information in Australia. However, both studies suggested that there was room for improvement.

Supply and demand information for grain in Australia can be broken down in to a few major components. The percentages in brackets are for wheat.

Supply = Production (78%) + Carry in Stocks (22%) + Imports (0%)

Source: ABARES, 2018

Demand = Exports (76%) + Domestic human consumption (9%) + Domestic feed (13%) + Seed (2%)

Source: GrainGrowers, 2016

Carry in Stocks refer to grain that has been carried in from the previous season and can be broken down into Committed (in storage but sold) and Uncommitted (in storage, unsold).

Currently, there is little to no industry or government regulation around the provision of supply and demand information, with the exception of Port terminal service providers which are mandated to provide publicly daily ship loading statement with grain type, tonnes and exporter for ships to be loaded in the coming two months and recently completed shipments (ACCC, 2017). There is also a government requirement for exporters to notify the government of international cargoes including destination and cargo. However, this data is published two months in arrears and the notification only needs to be given at time of shipping rather than at time of sale (ABS, 2018), which would most likely have occurred many months in advance.

Some commercial handlers are voluntarily providing greater disclosure of grower delivery data and stocks information. In 2017, CBH began providing growers with weekly harvest delivery information in the form of aggregated tonnes and average qualities on a port zone by port zone, grade-by-grade basis. This was previously only provided to buyers who owned grain in the CBH system. However, CBH does not provide growers or buyers with stocks changes post-harvest, carry in stocks or a breakdown of committed stocks versus uncommitted stocks.

ABARES and ABS are two government organisations that provide supply and demand information. ABARES and ABS use different methods for collecting information so their numbers can differ. For example, there is still a large disparity in the reporting of the size of the 2016/17 Australian wheat crop. ABARES is currently reporting the crop size at 34.4mt production (ABARES, 2018) and ABS, who is quoting 30.4mt (ABS, 2018), a difference of 4.0mt or 13% for a crop that was harvest two years ago.

There are also private organisations, such as Profarmer and AgScientia, that collect and sell supply and demand information.

Supply and demand information is moderately to very valuable to growers and traders, as indicated by Figures 23 and 24.

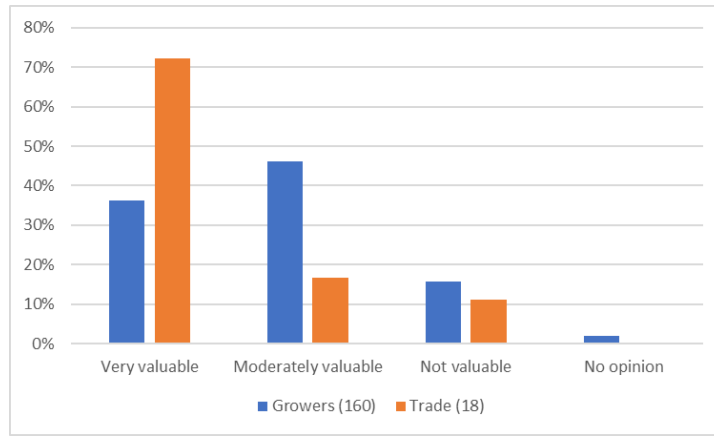


Figure 23: Value of supply data to their business according to Australian growers and traders.

Source: Author (2018)

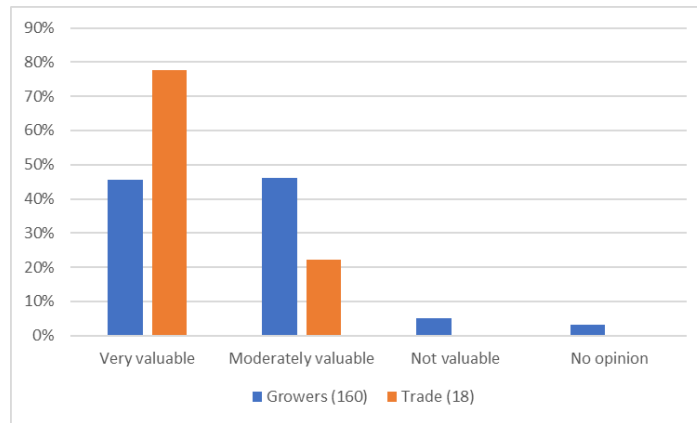


Figure 24: Value of demand data to their business according to Australian growers and traders.

Source: Author (2018)

Currently many traders and growers have little to no access to this information (Figures 25 and 26).

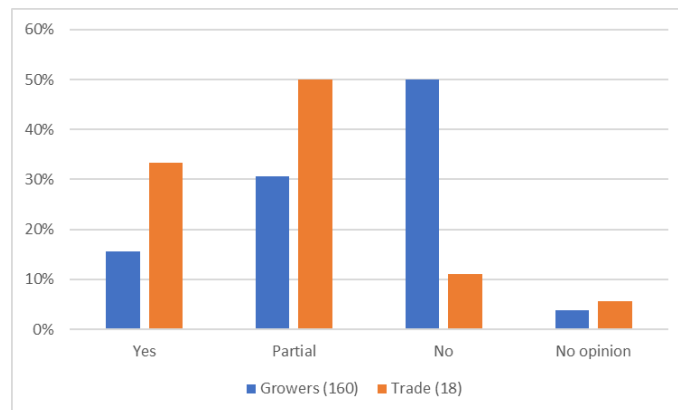


Figure 25: Current availability of supply data to their business according to Australian growers and traders.

Source: Author (2018)

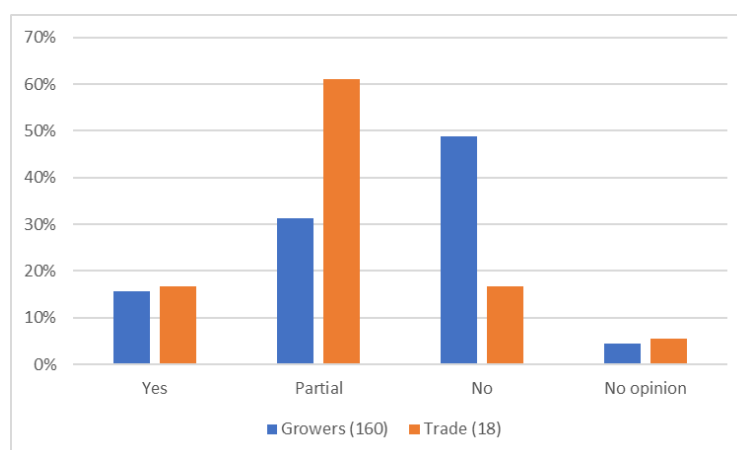


Figure 26: Current availability of demand data to their business according to Australian growers and traders.

Source: Author (2018)

The survey results suggest that there needs to be an increase in the quality and the quantity of supply and demand information that is affordable and accessible to all market participants, particularly growers. This is supported by studies performed by the Wheat Industry Expert Group, the Productivity Commission and the ACCC.

Improving the amount and timeliness of information available to all market participants will help prices to trade closer to fair value and help participants make better commercial decisions such as which varieties to grow to meet future demand.

For example, the drastic reduction in 2016/17 wheat harvest estimates by the ABS in 2018, coupled with a drought in 2017 and 2018, has seen grain prices on the east coast of Australia skyrocket as end users scramble to secure tonnes. The over estimating of the 2016/17 crop would most likely have caused growers to sell at lower prices than if the estimates had been correct. This may have been avoided if better supply and demand information was available to the market. Although this may mean grain growers miss out on occasional, short-term price spikes in times of grain shortages, growers will benefit from long-term sustainability of demand from businesses that consume Australian grain domestically and internationally.

The larger traders have capacity to collect good information in-house or to pay for information from third parties, which growers and small end users are unlikely to be able to do. Bulk handlers can also potentially access information on grain stored right down to a committed versus uncommitted level, which other participants cannot access. This could create an unfair competitive advantage to these entrenched companies. Figure 27 shows the dominance of

CBH, Glencore and GrainCorp in the ‘home’ states compared to the rest of the country. This could lead to reduced buyer competition and eventually lower prices to the grower.

More competition will occur and prices will trade closer to fair value when all participants have equal access to information. To achieve this, the large storage and handlers would need to make public the amount of grain they have in storage. Ideally, this would be done on a voluntarily basis. A failure to do so may see more burdensome and less effective government regulations be enforced on the industry. The survey results in Figure 28 show that most growers and traders would be comfortable having equal access to this information.

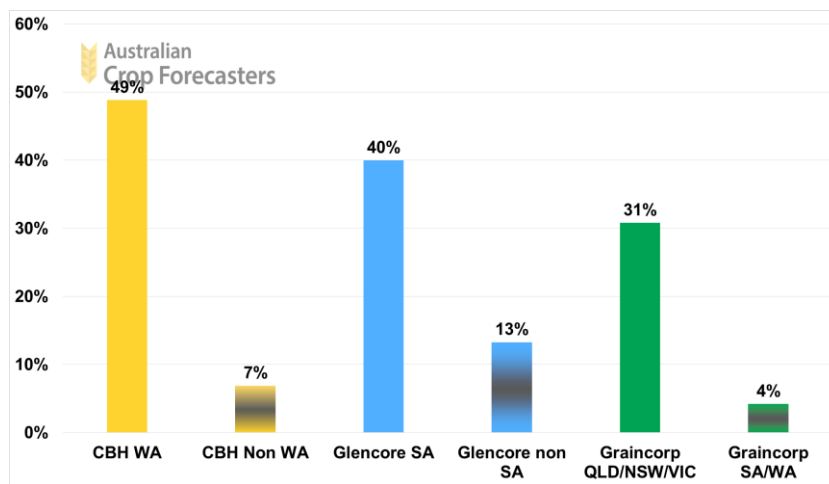


Figure 27: Average share of bulk exports from 2012/13 – 2016/17 by CBH, Glencore and Graincorp in their ‘home’ states and ‘away’ states.

Source: Maxwell (2018)

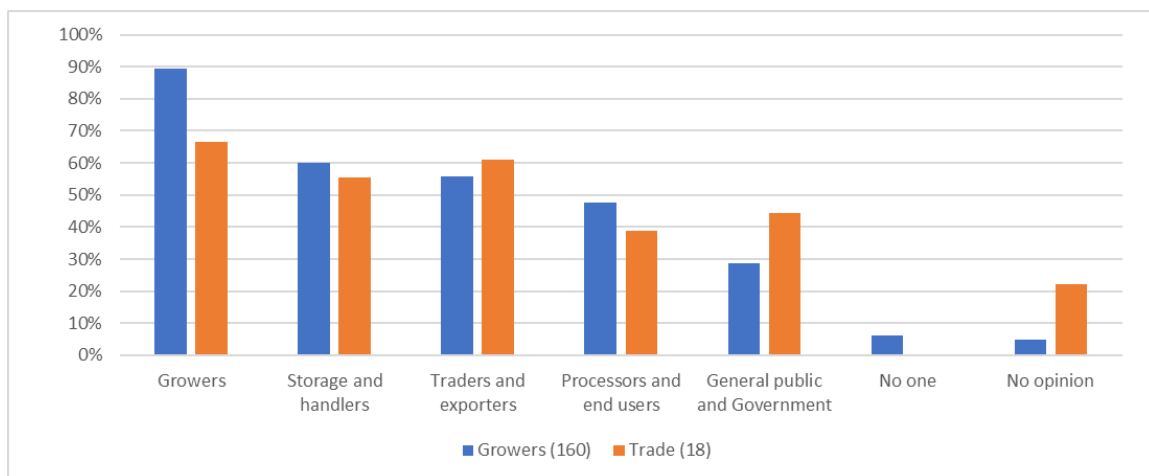


Figure 28: Who should have easy and affordable access to supply and demand data according to Australian growers and traders.

Source: Author (2018)

Although much of the discussion since deregulation has been around stock disclosure, carry in stocks only accounts for approximately 22% of the supply side of the equation, with little discussion on the remaining 78% of the supply side or the entire demand side. It is important that there is a balance between availability of supply and demand data so that growers are not disadvantaged (Wheat Industry Expert Group, 2008).

As recommended by Independent Wheat Market Information Study (2011) the ABS should improve the timeliness of export demand information. To do so they could consider following in the footsteps of the USDA who collect and report weekly sales and export data. The weekly sales data in particular is very relevant to the market as it shows current demand for Australian grain with little lag. The current monthly reporting of export data and shipping stem data are too delayed to be of much use to the industry, with sales potentially having occurred up to 12 months prior.

Conclusion

The Australian grain industry is performing well post deregulation as indicated by strengthening premiums for Australian wheat, a high number of exporters, no defaults of major exporters and relatively low transaction costs. However, to remain globally competitive against producing nations that are bigger, cheaper and have greater government support, the Australian grain industry needs to improve the delivery of industry good functions and prioritise which functions to invest in.

The industry good functions that need the greatest investment, especially by growers and grower organisations, are:

- Researching and recommending improvements to the industry.
- Politically representing and advocating on behalf of the industry.

The biggest challenges the grain industry will face will come from within Australia by unaware voters and consumers which will impact grower social licence to grow grain efficiently. This includes preventing the use of advanced plant breeding techniques, important chemistry, blocking government investment into essential infrastructure, and enforcing environmental regulations. These limitations have the potential to significantly reduce profitable grain businesses, especially if international competitors are not burdened with the same impediments. The industry needs to have the research and the social reach to ensure Australian voters and consumers support Australian grain growing businesses.

Alongside prioritising the functions that will generate the greatest return on investment, the industry also needs to determine which organisations will focus on which functions. Currently there is an overlap by many organisations for the provision of the same functions. This is creating duplications and gaps, and creating complications when delivering key messages to consumers, voters and industry participants. Improving the delivery of industry good function will require:

- much greater coordination and consolidation of the current industry good providers,
- focus on quality over quantity due to limited resources,
- improved funding structures to minimise the free rider affect.

Of the three countries visited, the US appears to be delivering the best industry good functions. This may be due to the US market having been deregulated for much longer than

the Australian and Canadian markets allowing more time for their system to develop and mature. US organisations also have access to greater amounts of funding through their government and due to the size of their grain industry and associated checkoff system (Figure 4). However, the segregation of industry good functions by grain type at a state and national level has created overlap and duplication between different grain organisations who provide many of the same services to the same growers and also deal with the same consumers, end users, markets and politicians.

Canada appears to have the poorest delivery of industry good functions. Again, this may relate to Canada being the last of the three countries to deregulate. The Canadian system is also segregated into grain types at a provincial and national level which is causing further fragmentation, inefficiencies and conflict. Many Canadian farmers and some of the biggest grower representative organisations are also still grappling with the loss of the single desk marketing arrangements which is causing fragmentation and frustration at a grower level.

In Australia, most essential functions appear to be being performed at a sufficient level as indicated by increasing premium for Australian wheat and the number of active buyers in the marketplace. However, the Australian grain industry, like the US and Canada, has a number of functions where multiple organisations are performing the same role. This creates inefficiencies through duplication and dilution of resources. It also means some functions are being underperformed or not performed at all due to a lack of resources.

Having multiple organisations involved in the delivery of the same functions can also reduce the effectiveness of the delivery of that function as organisations may disagree or take different approaches on how to perform the role. This can lead to conflict and can also create mixed messaging and confusion for the target audience, be them consumers, producers or voters.



Figure 29: How efficiently and effectively Australian growers and traders think industry good functions are currently being performed.

Source: Author (2018)

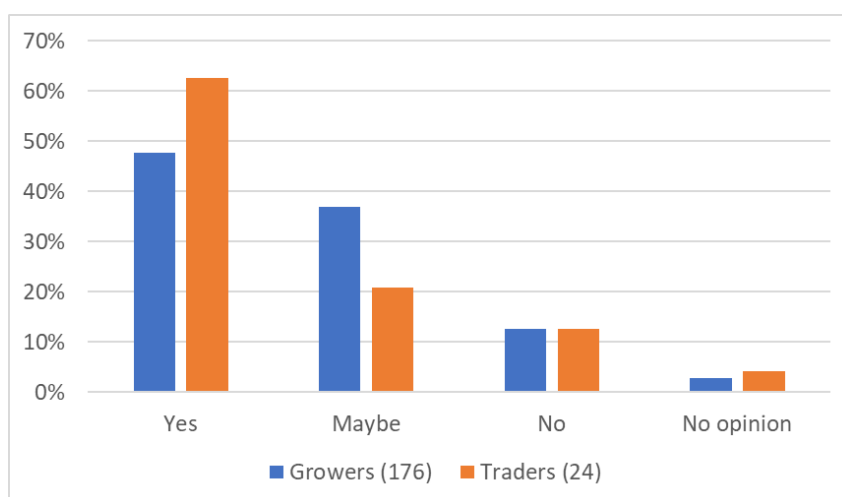


Figure 30: If Australian growers and traders think the industry would benefit if one overarching organisation coordinated these functions.

Source: Author (2018)

Growers and traders agree that the delivery of industry good functions could be more efficient and effective (Figure 29) and that the industry may benefit if there was one overarching organisation to coordinate these functions (Figure 30). To improve the provision of industry good functions, the organisations involved and the industry as a whole must work towards a more coordinated and consolidated industry, with fewer organisations specialising in particular functions.

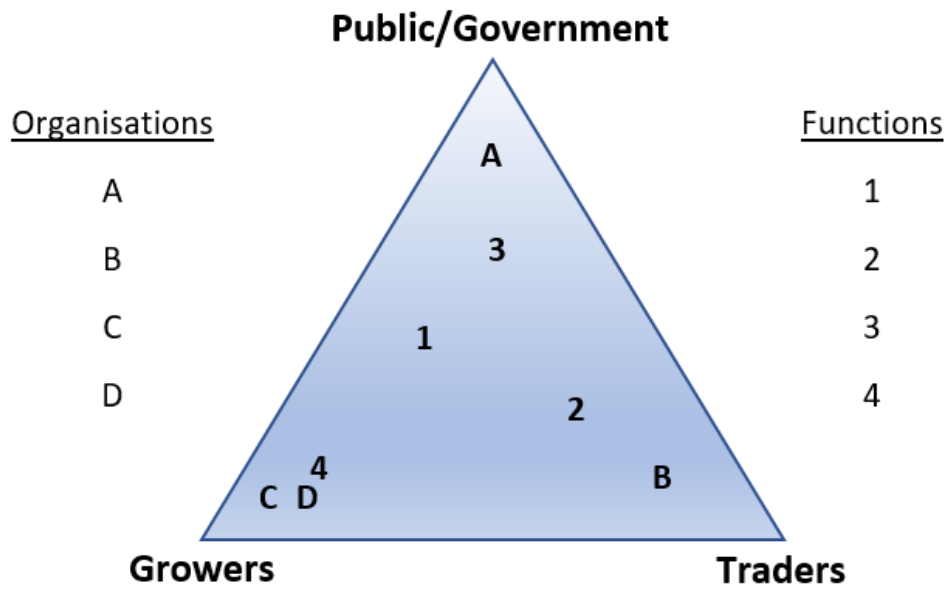


Figure 31: An example of a triple investment diagram indicating which organisations and functions predominantly benefit which sectors of the industry; the growers, the traders or the general public.

Source: Author (2018)

To determine which organisations should perform which functions an in-depth analysis will need to occur. A part of this analysis may involve plotting each function and each organisation on a triple investment triangle according to which of the three major sectors, grower, industry or general public, the function or organisation predominantly benefits. This can then be used to indicate which organisation is best suited to perform which role. An example of a triple investment triangle is displayed in Figure 31.

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