SUBMISSION IN RESPONSE TO THE PRODUCTIVITY COMMISSION INTERIM REPORT ON VULNERABLE SUPPLY CHAINS

PREPARED BY GRAIN GROWERS LTD

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EXECUTIVE SUMMARY

Australian farmers face some of the most volatile natural hazard risks when compared to other G20 agricultural producers.

The Australian grains industry has continued to prove its ability to adapt to the changing operating environment, from geopolitical risks, climate, financial and pandemic. It is critical to observe the actual and perceived hazards and strategically consider appropriate risk management frameworks to deal with the immediate threats and those on the horizon. This submission urges the Australian Productivity Commission to reconsider its exclusion of food and agriculture from this project to ensure Australia's national security is adequately reviewed and framework considered. It is important that agriculture and food are considered a part of this report and scope of work to demonstrate what we value and the need to prioritise food security and safety.

The global operating environment has significantly been disrupted as a result of COVID-19. There is a sense of vulnerability for the Australian grains industry which could be further exacerbated if existing management strategies fail or innovative and adaptive actions are not taken.

Domestically, COVID-19 demonstrated that in a crisis people sought out to stockpile food even though Australia produces close to 93% of its own food with no real reason for concern. Australians have demonstrated that reliability, affordability, and security of food supply needs to be considered when observing our national security and planning for any future events. Australia is fortunate to rank favourably when considering global index such as the EIU's Global Food Security Index[1] which places Australia at 31 out of 113 countries. However, we have slipped 25 places in two years, an observation that should not be overlooked and considered in further detail.

The following submission seeks to make comment on the following:

- A snapshot of the Australian Grains industry
- Outline of the existing vulnerabilities the grains industry is exposed to
- Comments on existing management strategies, and
- Recommendations for industry and government to consider to adequately managing those risks.

GrainGrowers would also like acknowledged that disruptions to the grains supply chains may not only come from *external* forces (e.g., market access, import tariff, freight impediments etc.) but disruption may also come from *internal* forces such as actions taken by the Australian government (e.g., moratorium on Genetically Modified canola or restrictions on interstate labour movements under COVID-19). Vulnerability of the supply chain may not look like an ability to supply or grow the commodity, but it may come in the form of an inability to capitalise of the opportunity such as a positive season due to an inability to plant due to supply chain constrains to access key chemicals and fertilisers.

[1] Global Food Security Index, via https://foodsecurityindex.eiu.com/Country/Details#Australia
[Front Cover Photo: Marlee Langfield 'GrowHer' from New South Wales]

SUMMARY OF RECOMMENDATIONS

Recommendation 1

Productivity Commission reconsider its position to exclude agriculture from this interim report and consider the vulnerabilities of its long supply chains and risk mitigation strategies.

Recommendation 2

The Australian, state and territory governments should permanently designate farm business and associated services as ‘essential services’ in all relevant Acts to strengthen Australia’s grains food security.

Recommendation 3

Amendment of the Liquid Fuel Emergency Act 1984 and state and territories associating Acts and Guidelines to include farm businesses / agricultural services to be classified as essential services to preserving the health, safety and general wellbeing of community.

Recommendation 4

The National Agricultural Workforce Strategy should provide direction to ensure Australian growers have enhanced and ongoing access to a skilled regional workforce.

Recommendation 5

An independent review to investigate acceptable emergency levels of liquid fuel held domestically and how to adhere to International Energy Agency (IEA) requirements (such as the 90-day supplies standards) and implement most effective approach to achieving these levels.

Recommendation 7

The Australian Government to provide additional funding for the elimination of non-tariff barriers impeding on Australian grain exports.

Recommendation 8

The Australian Government recognise that building new markets for grain exports requires considerable lead-times and major investments in marketing and technical support. Coupled with planting decisions that may occur up to 18 months before harvest, pivoting to new export markets is costly and resource intensive.

Recommendation 9

An Additional $100 million per annum for four years to ensure adequate long-term funding for the national biosecurity system, targeting risk-creating activities and giving trading partners confidence in Australia's pest and disease-free status.

Recommendation 10

Support Australia’s biosecurity objectives via an ongoing process of risk mitigation and promotion of improvements to biosecurity measures, including improvements to surveillance, diagnostics, reporting and management of pests.

SNAPSHORT OF AUSTRALIA
GRAINS INDUSRTY

The grains sector is a powerhouse of regional Australia with 23,000 farm businesses growing on average 43.6 million tonnes of grains, oilseeds and pulses each year for domestic and global customers. The farm-gate value of Australian grain production is $15 billion, contributing 21% of the value of Australian agriculture. We are a major contributor the Australian economy, directly employing over 100,000 people.

The Australian agricultural sector is striving to reach $100 billion by 2030, up from current value of $61 billion with the broader agribusiness supply chain striving to reach $300 billion. A significant increase in the value of farm production in a decade is clearly a challenging task. However, the Australian grain industry has a history of transformational change, underpinned by research and development and innovative farm businesses.

Grains are produced in all Australian states and territories. Australia's total winter crop area is around 21.5 million hectares each year, with summer crop area around 1.1 million hectares. By land area, nearly 40% of winter crop is concentrated in Western Australia, followed by 25% in New South Wales.

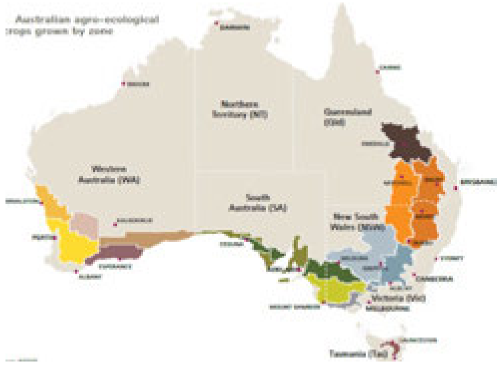

Figure 1 Australian grain production regions
Source: AEGIC

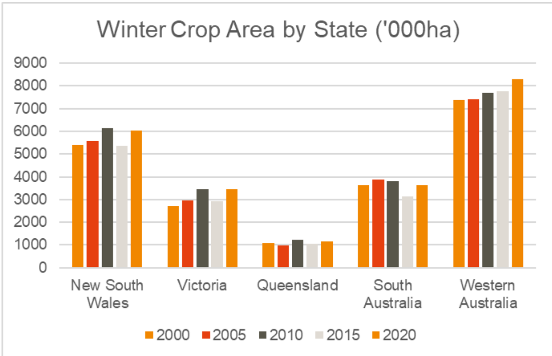

Figure 2 Winter crop area by state.
Source: ABARES

The Australian grain industry is export focused with approximately 70% of total production sold to overseas customers in normal (non-drought) years. When looking at global trends the grains industry is seeing the rise in developing nation's populations and increasing incomes seeing growth in consumption for western food products such as breads along with demand for animal protein. Both these trends result in opportunities for Australian grains be they for providing food quality wheat or a feed source for animal production systems.

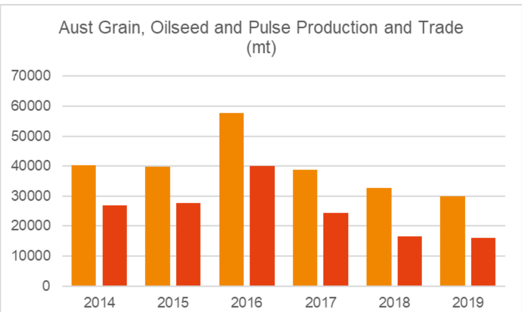

Figure 3: Australian grain production and trade
Source: ABARES

GRAINS SUPPLY CHAIN VULNERABILITIES

Agriculture as an 'essential service'

In the early stages of the COVID-19 pandemic, it was not clear that grain production (and its associated supply chains) was viewed as 'essential services' under respective Australian state/territory and federal rules. This created confusion as to whether grain farmers and exporters were able to maintain normal farm and export operations, whether they could travel to source key inputs (fertiliser, herbicides, and fuels), access farm advisory services (agronomy) or transport equipment and product as normal.

This uncertainty extended to suppliers and service providers who support grain farmers and exporters such as farm machinery suppliers and repairs, agronomists, truck drivers and grain handling services. To identify 'essential services' in the grain supply chain, GrainGrowers, worked with broader grains industry representatives, and compiled a list of suppliers and service providers critical to the functioning of the grains supply chain (Attachment A).

Recommendation

The Australian, state and territory governments should permanently designate farm business and associated services as 'essential services' in all relevant Acts to strengthen Australia's grains food security.

Recommendation

Amendment of the *Liquid Fuel Emergency Act 1984* and state and territories associating Acts and Guidelines to include farm businesses / agricultural services to be classified as essential services to preserving the health, safety, and general wellbeing of community.

Recommendation

The National Agricultural Workforce Strategy should provide direction to ensure Australian growers have enhanced and ongoing access to a skilled regional workforce.

Supply chain integrity and assurance of critical enablers

Agriculture was not immune to the production and trade disruptions experienced during COVID-19, yet some of these disruptions not directly cause by it. Whilst the impact in Australia was less significant than that of international competitors, challenges relating to international transportation of goods and key inputs highlighted the risk and exposure to international suppliers. The Australian grains industry is reliant upon sourcing many of the following from overseas:

- agricultural chemicals, such as fertilisers, herbicides, pesticides, and fungicides,
- machinery and machinery parts
- liquid fuel
- skilled labour such as contractor harvester operators.

All these inputs are critical to the productivity of the industry, being crop yield, crop protection and quality along with meeting export requirements such as stored grain protection and phytosanitary requirements. Disruptions to supply of these inputs whether they result in delays or increased costs can cause significant burden upon a grains operation. Grain production has critical windows in the year whereby activities are time sensitive such as planting and harvesting a crop. Delays to these activities could see the yield impacted or quality downgrades in the crop.

Liquid Fuel and Australian Agriculture[2]

Liquid fuel underpins much of the agriculture and grains supply chains, the reliance on this resource is high and constraints to its supply would have significant impact to not only the sector by the wider community and supply of food. Australia's access to liquid fuel is globally dependent and whilst this presents opportunities the risks need to be managed and adequately resourced to ensure the system is resilient, reliable, and affordable. Without addressing these fundamentals, the broader security threat is high.

The Agricultural sector is overly exposed and reliant upon diesel fuel, with 84% of energy use coming from this one source. Demand in grain is seasonal and time sensitive as it is closely linked to the cropping cycles on farm. The added risk of geographic isolate of many grain growing regions is another aspect of the issue that needs to be managed. Australia is the only developed oil-importing nation that has no government-controlled oil stocks, mandated commercial stock requirements or involvement in oil markets.

Recommendation

An independent review to investigate acceptable emergency levels of liquid fuel held domestically and how to adhere to International Energy Agency (IEA) requirements (such as the 90-day supplies standards) and implement most effective approach to achieving these levels.

GrainGrowers acknowledges the pay offs that come with policies that seek to reduce this exposure to this risk by encouraging domestic production and therefore refers to the work undertaken by the OECD[3] (2020) and ABARES[4] (2021) that explores the opportunities to improve the interconnected world of global value chains.

Geopolitics and trade

The Australian grains sector is the second largest agricultural commodity, contributing around $14 billion annually to Australian economy, seeing over 70% of product grown being exported at a value of $7.3 billion. Our export volumes are globally significant, exporting on average 29mmt of grain each year, with wheat as Australia's major grain export, with canola, barley, and pulse also major export commodities.

Market Concentration

The Australian grain industry has a relatively high reliance on individual export markets. Between 2014/15 and 2018, one market dominated each of our exports of each of Australia's four major grains commodities. These were Indonesia for wheat (21% of all wheat exports[5]), EU for canola (71%[6]), China for barley (72%[7]) and India for pulse (38%[8]). In all instances the next largest single destinations were less than half of these four largest markets by

[2] GrainGrowers, Liquid Fuel Policy Position accessed via https://www.graingrowers.com.au/liquid-fuel-security-policy/
[3] OECD, *Shocks, risks, and global value chains: insights from the OECD METRO model* via https://www.oecd.org/trade/topics/metro-trade-model/
[4] ABARES, *Understanding effects of supply disruptions on globally and locally focused economies* via https://daff.ent.sirsidynix.net.au/client/en_AU/search/asset/1032041/0
[5] Five-year average between 2014-18
[6] Four-year average between 2015-18
[7] Four-year average between 2015-18
[8] Four-year average between 2015-18

volume and value. These key markets have been developed over time through major investment in market intelligence, production promotion, and in building commercial relationships.

Table 1: Major Export Markets for Australian Wheat (average 2014-18)

Rank	Market	Volume	Value	Percent by value
1	Indonesia	3.8mmt	$1.1b	20.8
2	Vietnam	1.4mmt	$435m	8.2
3	China	1.3mmt	$373m	7.0
4	Philippines	1.3mmt	$358m	6.8
5	Korea	1.1mmt	$337m	6.4
6	Japan	0.9mmt	$316m	6.0
7	Malaysia	0.9mmt	$254m	4.8
8	Yemen	0.8mmt	$245m	4.6
9	India	0.8mmt	$227m	4.3
10	New Zealand	0.5mmt	$159m	3.0

Table 2: Major Export Markets for Australian Canola (average 2015-18)

Rank	Market	Volume	Value	Percent by value
1	European Union	2mmt	$1.1b	70.5
2	Japan	177,000t	$106m	6.8
3	China	137,000t	$80m	5.1
4	United Arab Emirates	85,000t	$49m	3.1
5	Pakistan	66,000t	$39m	2.5
6	Nepal	33,000t	$20m	1.3
7	Malaysia	26,000t	$14m	0.9

Table 3: Major Export Markets for Australian Barley (average 2015-18)

Rank	Market	Volume	Value	Percent by value
1	China	4.6mmt	$1.3b	72.2
2	Japan	777,000t	$217m	12.1
3	Saudi Arabia	408,000t	$98m	5.4
4	United Arab Emirates	210,000t	$55m	3.1
5	Kuwait	168,000t	$39m	2.2
6	Vietnam	74,000	$22m	1.2
7	Thailand	68,000	$22m	1.2
8	Korea	43,000t	$14m	0.8
9	Taiwan	39,000t	$10m	0.6

Table 4: Major Export Markets for Australian Pulses[9] (average 2015-18)

Rank	Market	Volume	Value	Percent by value
1	India	864,000t	$769m	38.6
2	Bangladesh	389,000t	$305m	15.3
3	Pakistan	235,000t	$207m	10.4
4	Egypt	285,000t	$139m	7.0
5	United Arab Emirates	105,000t	$86m	4.3
6	Sri Lanka	101,000t	$80m	4.0
7	Netherlands	141,000t	$55m	2.8
8	Korea	119,000t	$43m	2.2
9	Vietnam	34,000t	$40m	2.0
10	Saudi Arabia	41,000t	$25m	1.3

Source: Australian Export Grains Innovation Centre

[9] Combined average of exports of chickpeas, lentils, field beans, field peas and lupins for 2015-18.

There are opportunities and risks to market concentration. Key advantage is predominantly supplying a single market brings with it a greater ability to communicate Australia’s value proposition. With relatively few major destinations, the value proposition for Australian grain can be communicated and reinforced, allowing deep market penetration. Australia has built a reputation for the quality and functionality of our grain and the hygiene and safety of our export supply chains. This approach does not work when markets become more price sensitive as Australia remains a high-cost producer of grain in the global context. Australian growers are highly efficient, however broader economic factors, including workforce, freight, energy, and costs associated with regulation compliance, all contribute to an increase in the cost of production.

In contrast, there are disadvantages of being reliant upon a single market for export. The risk this poses is when costs imposed by a dominate market result in significant or unexpected total closure of that market. China’s unfounded decision to impose anti-dumping and countervailing duties on Australian barley exports demonstrates how exports concentrated on one market can impose major costs when market access is constrained. Similarly, any development that reduced access to the EU market for Australian canola would be of significant concern to our growers, with the EU representing 70% of Australian canola exports by value.

Reliance on a key market also increases our vulnerability to increased tariff or non-tariff barriers imposed by that country. India’s decision to immediately increase the tariff on pulses in December 2017, for example, had immediate impacts on prices and devalued much of the investment in development of those commodities in Australia.

Increasing competition from lower-cost competitors can also undermine an investment in a key target market. For example, in the case of wheat, Australian growers are seeing their exports to key markets challenged by low-cost producers from the Black Sea Region and Argentina.

Trade agreements between key markets and competitor countries also present a competitive risk, especially when a competitor nation secures more favourable terms of trade. Market preferences may change (e.g., a greater focus on price over quality), an interruption to supply of suitable product from Australia (e.g., as a result of drought), a change in domestic conditions (e.g., strong local production) or an introduction of a non-tariff barrier. Any of these changes can result in the erosion of a market.

It is critical the Australian Government and industry have a proactive plan in place to help ensure exporters have viable market options to help manage these changes. This plan is particularly critical for managing rapid and unexpected market changes that have immediate and significant impacts on Australian growers, exporters, and supply chain services providers.

GrainGrowers considers there is a role for government, working closely with industry, to be more proactive in identifying new market opportunities and establishing new commercial relationships.

Non-Tariffs Measures (NTMs)

Competitive market access arrangements are not delivering upon the signing of a bilateral or multilateral free trade agreement. A priority for the Australian grains industry is the removal of NTMs which will facilitate trade, reduce risk and costs for exporters and avoid disruptions to trade. When looking at the variety of NTMs Australian agriculture is overly exposed to Sanitary and phytosanitary measures (SPS) and Technical barriers to trade (TBT). The Australian grains industry is the third industry most significant impacted by NTMs[10] with over 3,800 NTMs.

[10] ABARES (2019), Non-Tariff measures affecting Australian agriculture accessed via https://www.agriculture.gov.au/abares/research-topics/trade/non-tariff-measures

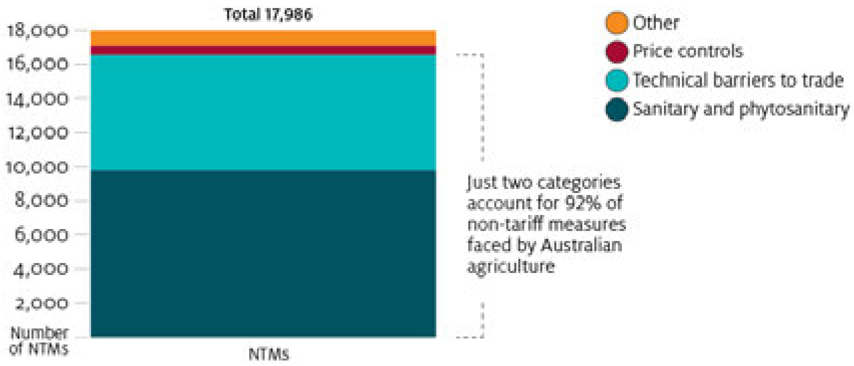

Figure 5 Non-tariff measures affecting Australian agriculture, January 2019
Source: ABARES

These barriers to trade can result on the following impact on farm for Australian grain farmers:

- Higher operational risks
- Increased costs for compliance, administration, and production
- Risk of trade ban or trade restrictions.

It is recognised that addressing these NTMs is a challenge and requires engagement by both government and industry. The industry continues to proactively engage with government to address and prioritise these barriers as per a publication in 2019 *Grains NTM Project*[11].

Recommendation

The Australian Government to provide additional funding for the elimination of non-tariff barriers impeding on Australian grain exports.

Recommendation

The Australian Government recognise that building new markets for grain exports requires considerable lead-times and major investments in marketing and technical support. Coupled with planting decisions that may occur up to 18 months before harvest, pivoting to new export markets is costly and resource intensive.

Biosecurity

Biosecurity is critical to support agriculture productivity, to protect Australia's agricultural industries, environment, human health, and social and cultural value to support international and domestic market access for Australian grains. GrainGrowers believes biosecurity[12] to be a shared responsibility and requires coordination across all governments, industry, producers, and the broader community. The Australian grain's industry currently benefits from a enviable "pest-free status" for many invasive pests. If this status were to be in jeopardy the impact would be significant. For example, an outbreak of khapra beetle would have consequences to the trade of Australian grain and could cost Australia over $15.5 billion over 20 years through revenue losses arising from reduction in production and exports. If Australia lost its pest-free status it would affect any stored grain exports to countries that are khapra betel free including China, Japan, and Indonesia.

[11] Grains NTM Project, accessed via https://www.graingrowers.com.au/wp-content/uploads/2019/09/Grains-NTM-summary-report-2019.pdf
[12] GrainGrowers Biosecurity Policy accessed via https://www.graingrowers.com.au/graingrower-biosecurity-policy/

Recommendation

An Additional $100 million per annum for four years to ensure adequate long-term funding for the national biosecurity system, targeting risk-creating activities and giving trading partners confidence in Australia's pest and disease-free status.

Recommendation

Support Australia’s biosecurity objectives via an ongoing process of risk mitigation and promotion of improvements to biosecurity measures, including improvements to surveillance, diagnostics, reporting and management of pests.

Infrastructure

The grains industry continues to grow and implement the use of sophisticated technology and equipment, the speed of harvest is increasing and pressure on the supply chain intensify. The supply chain that services the Australian grains industry plays a critical role in the international competitiveness of the industry and ensuring profitability at the farm gate. When compared to the industry’s international competitors, there is a chronic lack of investment, ageing infrastructure and poor planning and cumbersome regulation.

Figure 5 Australian grains industry supply chain

CONCLUSION

GrainGrowers welcomes the opportunity to provide a submission to the *Productivity Commission' interim report on Vulnerable Supply Chains.* The grains industry has continued to provide significant contributions to the Australian economy and public good. It is critical the growers are empowered to manage the volatility of production, climate, and markets, irrespective of the size of their operation.

GrainGrowers' implore the Productivity Commission to reconsider its position to exclude agriculture from this report given the exposure and vulnerabilities identified in this submission. We thank you for your consideration of these recommendations. Should you require any further information in relation to this submission, please contact GrainGrowers' General Manager – Policy and Advocacy, Zachary Whale,

ATTACHMENT A
GRAINS ESSENTIAL SERVICE LIST

In late 2019 a new strain of coronavirus (COVID-19) emerged in China and has now spread around the globe. COVID-19 is a global pandemic that has already had significant impact on the global and Australian economy and the agricultural sector.

Agriculture must be classified as an essential service to guarantee food security. This definition must include both the pre- and post-farm gate sectors and must specifically include service providers and contractors for both the 'hard' physical supply chain, and the recording for the 'soft' transactional supply chain. For the grains industry, crops take six months to grow. Planting is commencing across Australia (occurs from April - May) for the major crops including cereals, oilseeds and legumes, which will then be harvested from September to December. These crops are used for producing staple foods, oil, stock feed and for brewing.

The following document seeks to identify key businesses and services that are not only necessary, indispensable and unavoidable service provisions for the grain sector but also:

- Essential to ensure the **preservation of life** in the event of increased COVID-19 impacts,
- Deliver products / service essential to the preservation of life
- **Deliver products / services essential to ensure the effective operation of society.**

The purpose of this document is to help inform **government policy to support industry.** It is recognised that many of the businesses and services listed below have put in measures to monitor and manage their risk and exposure such as moving to working from home arrangement and minimal human-to-human interactions. Critical services, suppliers and workers required for industry or business continuity, and maintenance of operations should remain operational whilst seeking to minimise the impact of this crisis. It should be noted the role wheat and barley has played in the production of hand sanitisers products with many breweries and distilleries converting their production to meet the needs of Australians.

KEY BUSINESSES / SERVICES:

SECTOR	BUSINESSES / SERVICES
R&D	• Science: research facilities including plant breeding and animal facilities, clinical trials and R&D infrastructure that requires constant attention (eg laboratories, samples, collections and storage facilities) that are important to Australia, such as: ○ Extension services to advise growers if conditions change such as chemical shortages or change in season ○ Biosecurity and pathogen monitoring

	○ Agronomic research providers (including private, government and university)
Farm Inputs	• Chemical and fertilizer manufactures, processors, suppliers, distributers and stores / retail • Seed producers, processors, packagers, suppliers, distributors and wholesalers • Crop and Farm Business advisors such as agronomists and financial advisors • Agronomy service providers and retailers • Rural supply stores providing critical inputs into production (chemicals, fertilizers, seeds, spare parts, OHS equipment, additional PPE equipment for COVID-19 specific on-farm purpose) • Manufactures and distributors of cleaning and sanitizing products • Mechanics, engineers and spare part suppliers / stores • Financial services such as banking, financial advice, support services, insurance • Transaction record systems / platforms
Farm Production	• Primary Producers: grain and seed growers • Contractors: sowing, cropping, sprayers, spreading, fertilizer spreaders • Records of on-farm activities, applications
Freight	• Entities providing the logistic services for the movement of goods • Feed / Fodder / Seed / Chemicals / Fertilizers Transporters • Water Transporters • Fuel Transporters • Input Transporters • Back freight of empty trucks • Maintenance of truck washes • Rail providers and operators • Road, rail and port safety and maintenance • Courier companies for documentation delivery internationally and domestically • Document tracking systems
Storage	• Manufacturing and distribution of on-farm storage options ie silos, open bulk heads, tarpaulins • Workers and operators involved in the delivery, storage, receival and outturn of road and rail freight • Farm inputs and outputs • Ancillary workers at freight receival and storage sites • Container shipping and service providers • Fumigants, and fumigation service providers • Provision of access to site for food, feed, oil and malt customers • Testing labs and staff – biosecurity, MLRS and facilitate payments • BHC/grain warehousing record systems, quality records
Supply Chain	• Agriculture and Veterinary Chemical regulators, manufacturers, distributors and retailers • Entities or associations laboratory services and certification and auditing of food, feed and beverage safety along the supply chain • Labour hire companies providing workers to all the services mentioned

	• Regional accommodation for workers needing to travel for logistics or delivery or service purposes, or for COVID-19 self-isolation requirements • Legal, insurance, financial and contractual services involved in the sale of grain • Grain contract documents, certificates (e.g, NGR-EU documents etc) • Those providing manufacturing and operating licenses • Livestock feed manufactures • Primary and secondary food and feed manufacturers e.g flour mills, canola, oil processors, oat mills, malting plants and brewing plants • Businesses involved in the packaging, production and processing of food, feed and beverage production whether for domestic or export consumption. • Retailers including independent food, grocery and beverage retailers (such as bakers, breweries and grocery stores) • Telecommunication or data monitoring equipment sale, installation and repair businesses • Persons working in and conducting biosecurity and border force activities (all states and jurisdictions) • Need for site access / cross border access for pre-export inspection by; superintendent companies and dept of Ag – Biosecurity • Grain marketers (domestic and export) and affiliated businesses such as accumulation offices • Services providing market analysis, information and technical support for markets of Australian grain and other agricultural products • Education • Health providers and regional hospitals • Fuel and biofuels manufacturing and distribution
Ports	• Bulk terminals and containers for import and export of grain, seed, feed ingredients and additives and fertilizer • On-loading and out-loading operations of bulk and container goods (container packers) as well as stevedores • Shipping service providers and agents • Authorized Officer (Federal Govt) inspection services and documentation • Inspection companies • Export doc systems, Bills of Lading, Phytos, etc

Stay in touch with GrainGrowers

Please visit us online or email
if you would like to hear more!

1800 620 519
enquiry@graingrowers.com.au
www.graingrowers.com.au

@GrainGrowersLtd
GrainGrowers
@graingrowers
@Grain Growers Limited