

## **Submission to the Productivity Commission**

Robert Sewell, AM. Wheat Classification Council Chair  
13 November 2009

*This submission has been developed and prepared based on my own ideas and opinions, acknowledging my responsibility, as Chair, to report to the Board of the GRDC by June 2010 on the ongoing role of the WCC beyond that date. It has not been workshopped with or prepared in consultation with the members of the Wheat Classification Council (WCC). For that reason, this submission only deals with the section related to the Wheat Classification Council and industry good functions as identified in the Issues Paper.*

### **SUBMISSION**

***Is the WCC adequate for ensuring wheat quality and the usefulness of wheat classification?***

Wheat quality is generally defined as the quality required by the customer and may be a combination of wheat, flour, dough and end product attributes as well as consistency within and between deliveries.

Wheat quality broadly derives from the variety grown, the growing conditions and post harvest handling. The affect of variety on wheat quality is managed through the wheat classification process, by assessing the inherent characteristics of varieties and placing them into classes. This is distinct from one of key elements of post harvest handling, segregation, which deals with the physical attributes of wheat and is managed through the wheat receival standards. Growing conditions are much harder to manage but, elements such as nutrient levels and biotic stresses can be controlled through agronomic practice.

The Wheat Classification Council (WCC) is responsible for management of the wheat classification process and Grain Trade Australia is responsible for the establishment of wheat receival standards. Whilst, seasonal variation can have a significant impact on wheat quality, wheat classification and receival standards work together to minimise and manage seasonal impacts.

The usefulness of wheat classification (and receival standards) depends entirely on the extent to which it reflects market requirements and the extent to which it provides a quality framework for trade. In order to ensure the usefulness of wheat classification WCC must have mechanisms to capture market feedback and translate that into Classes and Class requirements.

WCC has a grower Chair and is composed of marketers, handlers, wheat breeders and specialist technical support. The composition was designed to be representative

of industry as well as, secure the necessary market feedback to establish classification strategy and technical expertise, to translate classification strategy into Classes and Class requirements.

The first fully operational meeting of the WCC was held in October 2009. Following a call for public submissions, there were more than 15 key classification issues to be addressed at that meeting ranging from data requirements for classification to the establishment of a new Class. Agreement was reached on the approach to be adopted for each of these issues.

WCC is an interim measure put in place by GRDC at the request of the Minister Burke. It is my role as WCC Chair to make a recommendation to GRDC before 30 June 2010 regarding the future arrangements for wheat classification in Australia. Development of this recommendation has, and will, involve broad industry consultation and consideration of the many quality and quality reputation issues currently facing the Australian wheat industry.

In finalising the recommendation a range of structure/function/funding options will be explored with key stakeholders. This process will build on the fact that the key elements required ensuring wheat quality – market input and technical expertise – are already represented in the basic WCC model.

A body that is similar in function and operation to the WCC and variety classification panel is Barley Australia. This organisation adequately and effectively manages the classification of malting barley in Australia, ensuring the quality of barley that goes through its accreditation system.

***Could the market deal with these issues without such a body?***

The issues revolve around how grain is segregated/stored and how grain is traded.

The Australian wheat supply chain relies heavily on centralised storage. The sharing of storage facilities by traders, and increasingly growers, relies on an agreed set of grain standards in order to work. Variety classification and receival standards represent the agreed set of standards for grain in shared storage. They also provide a basis for trade – not by prohibiting variation but rather providing a baseline from which variation may be described.

Alternatives in this situation could be storage providers developing their own classification and receival standard system and/or traders/growers banding together in smaller groups to agree classification and receival standards for their own grain. Barriers to the development of this would be the need from traders, customers and growers to operate across a number of such smaller systems and efficiency demanding that the standards to be the same.

If the supply chain were to evolve into predominantly individualised storage then the issue of common standards may, theoretically disappear completely. However, even in the US where on farm storage is the norm, the market has developed common classifications and receival standards in order to facilitate trade and accumulation of large volumes of grain.

***Does the market differentiate adequately between qualities of grain? Is the current level of co-mingling activity appropriate?***

Through a combination of classification and receival standards wheat is currently separated into Classes and Grades within a Class based on attributes generally recognised by customers eg milling quality, dough properties, end product suitability, protein level, grain size, falling number etc. Where specialist attributes are required by a market the opportunity exists to identify, segregate and sell specialist grain. Whether or not this happens is generally a question of segregation cost versus additional return.

The structure and operation of WCC is such that examination of the need for development of new Classes and Class requirements is fundamental to its operation.

***Is there adequate scope for marketing of particular types of wheat to service niche markets that are more narrowly specified than GTA standards? Does exporting through containers and bags provide satisfactory way to exploit non-standard marketing opportunities?***

GTA standards relate to physical characteristics of the grain and Classification is more to do with the functionality of the grain. Neither the GTA standards nor the Classification process prohibits or inhibits the development of niche or speciality wheats. They provide a set of rules and conditions to allow trade of the common classes and grades. Opportunity still exists for exporters and domestic users to service specialised markets using a combination of classification and standards or developing their own to meet a certain customer requirements. The thing that should not be allowed to happen is that non-standard product is described as a common class or grade eg non prime hard varieties at 13% protein being exported as prime hard.

The suitability of containers and bags to meet the needs of non-standard market opportunities depends on the size of the demand. Exporting through containers can satisfy very specific customer requirements in small lots. There is no reason why the same thing cannot be done with bulk export. In fact, AWBI routinely put together specialised parcels for customers for bulk shipment through site selection and blending. Supply of noodle wheat from WA to Japan is a highly specialised product shipped in bulk.

***Are growers able to extract an adequate value for the quality of their wheat?***

There is a general feeling that the ability of growers to extract adequate value for their wheat has slipped. Loss of the Golden Rewards system (paying protein, screenings, moisture and variety premiums) and return to cliff face pricing regimes has exposed growers to significant price discounting in response to small changes in quality.

Growers also note that there is not always a buyer or a suitable buyer available at the time they wish to sell leaving them in the unenviable position of having to sell to a less than credible trader or not selling at all.

At a higher level there is a sense that the quality premium associated with Australian wheat has been diminished. Historic premiums for prime hard (APH) and noodle wheat (ASWN) have been quoted by traders as examples where the recognised quality premiums rapidly dissipated in the deregulated market resulting in many millions of dollars being wiped of the trade balance.

One obvious reason for this is domestic competition between exporters. In the medium to long term absence of an industry body promoting Australian wheat and Australian wheat quality internationally will also see support for historic quality premiums eroded.

Some customers have cited the absence of a recognised Australian industry body operating in the international market, performing industry good functions, as a reason why Australian wheat is slipping in favour behind US wheat and Canadian wheat

***Can quality control be left to market-driven force, with commercial incentives placing a check on the quality delivered to overseas customers?***

Most industries use a quality control framework on which they base their quality control measures eg ISO, HACCP etc. Variety classification and receival standards provide part of that framework for the wheat industry.

In all major exporting countries quality control measures include a combination of some form of variety classification and physical standards. Non-traditional exporting countries like the former soviet states are moving towards quality control measures based on a combination of variety classification and physical standards. Generally these quality control measures are usually used in combination with commercial incentives – contract penalties if quality is not achieved.

Commercial incentives cannot be adequately determined on physical characteristics alone and the classification looks at the inherent characteristics of the grain which are not visible upon delivery.

### ***Has deregulation affected the reputation of Australian export wheat?***

Direct customer feedback and anecdotal evidence would suggest that it has – for example this comment from an important, long term Malaysian customer *“Australian wheat quality has been going to the dogs and we can no longer expect what we are going to receive especially with the container wheats. It has been "caveat emptor" since the deregulation and Australian wheat was beginning to be assigned the unglamorous tag of ‘anything goes’”. pers. Comm.*

Also these slides presented by Dr Soon-Bin Neoh, Seberang Flour Mill Malaysia at the Australian Grain Industry Conference, July 2009.

#### **Problems encounter since deregulation**

- Significant shipment delays especially bulk shipments out of WA.
- Container shipments have large quality variation.
- Occasionally shortage of containers and container loading facilities.
- Classification of wheat type especially for container shipments is uncertain e.g. who certify what is APH or AH.
- No crop quality report, unable to match market requirements to available wheat.

#### **Recommendations**

- Crop quality report a must
- Test weight for export should be Min 78kg/hliter
- Arrange contacts between buyers and farmers/farmer groups to build closer relationships
- Proper authority to provide technical support and continue R & D activities into Asian food products.
- Organize technical programs for Asian flour millers.
- Proper authority to certify wheat type and to maintain quality especially for container shipments.
- Set up container packing stations near major container ports

but this can be rectified if adequate quality control and reputation management measures are implemented. These measures should be part of the framework or infrastructure that is established to facilitate free trade.

***Has deregulation and co-mingling of stocks increase biosecurity risks?***

Co-mingling of stock has been a feature of the wheat industry since deregulation of the domestic market. Co-mingling is based on all grain meeting the same standards and so there is no reason to expect increased levels of co-mingling to impact on biosecurity risks. Anecdotal evidence would suggest that our biosecurity has not suffered due to deregulation.

***Is quality control more of an issue for container wheat exports than it is for bulk export wheat exports?***

Quality control is of equal importance in bulk and container trade. Certainly the smaller lot size of container shipments increases the risk of discovery if adequate quality control measures are not in place. Poor or inconsistent quality within and between deliveries presents real production issues to millers. Mill settings and operations need to be adjusted to manage variations in product quality and performance – representing down time, product returns and complaints.

The initial rush for container exports has delivered some criticism from overseas customers and market damage. However if Australia adopts a system that recognises quality control measures, manages the nomenclature of traded products and identifies non-performers damage to the reputation of Australian wheat can be stopped and repaired.

***Is quality control an issue in the domestic market?***

All milling operations – domestic and offshore – have in place and expect from suppliers, some level of quality control. The willingness of the local domestic market to be involved in the WCC process and support receival standards is proof that quality control is an issue for the domestic market.

**INDUSTRY GOOD FUNCTIONS**

***Are there currently gaps in the provision of “industry good” functions? If so, can these be left to the market to provide? Or is government involvement required? If so, how should these be funded?***

There are currently some gaps in the industry good functions left void by the AWBI no longer performing them. These include:

- Provision of market information – the government has funded the collection and dissemination of market data through ABARE but this is limited to volume shipped, destinations and stock levels. In order to appropriately manage and

operate wheat breeding, wheat classification and other industry good activities the industry needs to be able to determine the most important markets by grade. With importance being a combination of value, volume and long term buying patterns.

- Crop shaping – these are the medium to long term signals to influence the type and volume of wheat produced, including signals to wheat breeding and research organisations. Crop shaping activities rely on access to reliable market data and information.
- Wheat promotion – generic positioning of Australian wheat and Australian wheat quality relative to wheat of other origins
  - Information and promotional material
  - Technical market support – technical assistance for customers and potential customers to increase familiarity with Australian wheat processing and end product suitability

These activities are dependent on access to reliable market data and information as well as information on the quality and supply of wheat from other origins.

- Branding – brand development and protection of quality control systems; classes and grades. These activities were incorporated in the accumulation, sales and shipment activities of AWBI resulting in strong brand value for the generally recognised Australian Classes. Some of these issues will be addressed through the recently released ‘Australian Grain Industry Code of Conduct’. However, in a deregulated market there is a need for a coordinated approach to the management of brand issues across a large number of traders.
- Trade advocacy – identifying market access issues; securing market access; resolving trade issues that could impact on the market position of all Australian wheat exports.

Some of these issues cannot be left to the market to provide a solution because of conflicting market forces and requirements of individual marketers. Most of these issues are at a higher level than individual trading/marketing operations making it difficult or unlikely that a national common approach would be developed spontaneously.

Government involvement is required to give any industry good function the credibility when dealing with foreign government importing bodies. Government should be asked to “partner” with the industry to provide some base funding for the industry to build on for the effective continuation of the industry good functions including classification.

### ***Is there scope to use other grains as a case study?***

There are a number of grain industry bodies dealing with industry good functions on behalf of their industry. These include Barley Australia, Pulse Australia and Australian Oilseeds Federation. A brief outline of their mission and activities from their websites has been included below as a demonstration. Each of these

organisations is based on a single industry and has among their funding members or partners the major wheat exporting organisations.

Similarly, the horticulture industry has a plethora of product or industry based peak bodies and organisations fulfilling very similar mandates.

These peak bodies are operating at a precompetitive level, providing services and functions of value to their industry but not exclusively to the benefit of any one organisation. Competitive companies belong to and contribute to the operation of these peak bodies so that they conduct for the industry activities that individual organisations could not justify or would not/could not conduct on their own behalf.



## **Barley Australia**

**Barley Australian Ltd** is a non-profit, independent organisation set up to provide

- Accreditation of malting barley varieties grown in Australia
- Leadership in industry
- Market focus in barley breeding for future varieties
- Management of end use market R&D projects – currently Pilot Brewing Australia
- Increased recognition and international competitiveness of quality Australian barley through introduction of trademarking and as assured quality supply chain.

Barley Australian is the peak industry body for barley, it was established early in 2005 by seven Australian barley industry companies and is wholly funded by these foundation members.

[www.barleyaustralia.com.au](http://www.barleyaustralia.com.au)

## Pulse Australia Ltd

Pulse Australia's broad long-term goals are to:

- Distinguish Australian pulse products in the international market place.
- Develop and maintain existing and new markets.
- Address any weak links in the pulse value chain.
- Provide coordinated leadership and planning.
- Encourage world's best practice throughout the whole industry.
- Foster and maintain grower confidence.
- Ensure a reliable production base of consistent and safe pulse crops that meet customer requirements.

Pulse Australia takes a three pronged approach to ensure that the overall objectives are met in all areas of the industry:

**Crop Support:** Qualified field staff provide the catalyst for coordination or information across state and institutional boundaries - actively supporting farmers to ensure confidence, sustainability and consistency of pulse production.

**Industry Support:** Fundamentally about filling the gaps. That is, the provision of the means to create essential linkages along the value chain.

**Market Support:** Providing a single voice for industry in the areas of market access and development, negotiating with governments and other industry bodies both domestically and internationally.

[www.pulseaus.com.au](http://www.pulseaus.com.au)

## **Australian Oilseeds Federation**

AOF acts as a leader and facilitator. It provides direction to the industry, improves communication and secures stronger linkages within the industry for the betterment of the industry.

AOF delivers a range of services focused on enhancing industry growth and competitiveness and providing high value to members.

### **The range of services include:**

- Industry issue lobbying and representation
- Facilitating improved market access/export development
- Industry training/education
- Standards and protocols for trading and handling of oilseeds and oilseed products
- Strategic plan and industry goals identification and implementation
- Increasing industry awareness of innovations and potential opportunities
- Information and communication to/amongst the key interest groups
- Promoting Australian grown and Australian made oilseeds and oilseed products
- Oilseed related R&D with government, industry and R&D bodies
- Promoting environmentally responsible practices within the oilseed industry

### **AOF works for the benefit of the whole industry and, as such, its activities are based on:**

- effective positioning of the industry for competitive advantage
- sound understanding of the needs of members
- being flexible and responsive
- taking account of the needs of consumers for seed, oil and meal
- ensuring accountability and good corporate governance

The AOF provides services to the industry to help communicate the nature of and shape the environment in which the industry operates. AOF acts as a leader and facilitator to provide direction to the industry, improve communication and linkages between the industry and catalyse the industry to work together for the betterment of the industry. It responds to community wide issues on behalf of the industry and provides an independent and credible voice for the industry.

[www.australianoilseeds.com](http://www.australianoilseeds.com)

***Is there anything to learn from the way that other countries deal with the provision of industry good functions in the wheat industry? Or other industries?***

## **United States**

The US Wheat Associates is a good example of how industry promotion and advocacy could be handled. In fact, customers generally recognise the services offered and the activities undertaken by the US Wheat Associates as being a very good model for generic promotion and positioning of US wheat.

It should be recognised that the wheat associates have an extremely large budget and so are involved in a wider and more extensive suite of activities than any of the grain peak bodies in Australia. It is considered that whilst Australia would not need anything of this order of magnitude the principles of the model are good.

From the wheat associates wheat site –

“U.S. Wheat Associates (USW) develops export markets by demonstrating the reliability, choice, and value of U.S. wheat in over 100 countries. Our organization is funded by U.S. wheat producer checkoff dollars managed by 19 state wheat commissions and through cost-share funding provided by USDA’s Foreign Agricultural Service.”

[www.uswheat.org](http://www.uswheat.org)

## **Canada**

Similarly the Canadian International Grains Institute provides many of the industry good functions for the Canadian grain industry. Again this is done with a large budget and of a scope and scale not necessarily required in Australia. Certainly there are good ideas and principles that could be adopted.

From the Canadian International Grains Institute (CIGI) website –

“Incorporated in 1972 as a non-profit market development organization, the Canadian International Grains Institute (CIGI) is dedicated to promoting Canada's field crop industries in international and domestic markets through educational programming and technical activities. Representatives from grain, oilseed, pulse and special crops industries worldwide are invited to participate in CIGI programs and seminars. Since its inception, more than 30,000 individuals from 114 countries have attended CIGI programs.

Core funding for CIGI operations is provided by Agriculture and Agri-Food Canada (AAFC) and the Canadian Wheat Board (CWB). Additional funds and support are provided by other sectors of the agricultural industry. “

[www.cigi.ca](http://www.cigi.ca)