

Achieving a price premium from exported wheat

Donald Coles – Managing Director Valley Seeds Pty Ltd.

Achieving a price premium post single desk is the often stated aim of all grain growers. There are many ways to achieve a premium including; higher or novel quality product or lower cost of supply. In the late 90's Valley Seeds Pty Ltd initiated a project of introducing novel cereal germplasm (varieties & breeding lines) enhancements to the Australian market. The germplasm was sourced from private company breeding programs that were not previously made available to Australian growers. The aim of the business was to introduce varieties that would demand a premium on the export market.

While we were successful in introducing thousands of new wheat varieties, few if any were commercialised. The principle reason for this was that the new varieties did not fit the narrow quality parameters that are used to determine which varieties are accepted for each classification (delivery segregation). At the time AWB held the single desk rights and also controlled the classification process. AWB was determined to limit the number of segregations, for we assume, reasons of delivery and distribution efficiency. This market control manifested itself in AWB having complete control over wheat breeding objectives. Wheat breeders were forced to breed for the narrow quality classifications as a priority over all other quality and agronomic traits.

Now that the single desk arrangements have been discontinued breeders are free to innovate and breed new varieties that fall outside the classification segregations. This new opportunity for breeders could enable the Australian wheat industry to lead the world in producing unique quality traits as well as varieties that benefit growers with higher grain yields. This proposition however pre-supposes a number of factors:

- There are sufficient licensed wheat exporters to take advantage of breeder's innovative varieties
- That market forces are sufficient to encourage bulk handlers to offer non-classified segregations
- Physical delivery standards are maintained to prevent a general deterioration in grain cleanliness or safety.
- Growers acknowledge and comply with intellectual property protection systems (Plant Breeders Rights) and pay any resulting end point royalties owed to the breeder.

Licensed exporters

It is encouraging to see so many licenses issued. A change in micro economic policy often leads to a significant number of new entrants all with hopes and plans to take advantage of a market opportunity. The cycle will inevitably turn to a period of rationalization where supply pressure and or customer demands will lead some to discontinue their export activities. The opportunity needs to be more than just supply and more than just customer related. If the breeders are not offering the innovative varieties or the exporters are not looking for those products, the early opportunity will be lost. There are a great deal fewer breeders today than there were when I started with our wheat breeding business.

Bulk handling and segregations

Wheat variety classification is now funded by the Grains Research & Development Corporation (GRDC). The GRDC funds a very large percentage of industry activities including wheat breeding, agronomy, quality testing and now the final classification process. In 2005 it was reported in the GRDC publication "Ground Cover" that there were sixteen grain breeding/marketing companies. I understand the number today to be as few as four. Only one of these four can be regarded as private and independent.

Market concentration has shifted from a grower owned monopoly exporter to a grower funded research organisation. Questions of a conflict of interest when AWB operated the single desk, classification and also owned its own wheat breeding company were regularly aired. GRDC will need to look hard at managing its current range of activities to ensure it can guarantee a separation of activities. GRDC funded plant breeders need to be encouraged to breed innovative varieties that have the capacity to attract a premium price by overseas flour millers.

Despite the market power of the large bulk handling companies such as Grain Corp, ABB and CBH a capacity exists to use on-farm storage to create additional identity preserved grain shipments.

Delivery Standards

Physical quality standards are not legislated. While AWB was in charge of the single desk it had the market power to enforce physical quality standards on growers. AWB held breeders forums each year to inform breeders about market trends. It was stated at these forums that a major threat to Australia's traditional markets was a group called Non Traditional Exporters (NTE). NTE accounted for 15% of world trade in 1997-98 and increased to around 38% in 2002-3. Lower physical quality was seen as a major reason for their price competitiveness.

Another issue is the potential threat to wheat from contaminants such as plant based toxins. An example of such toxins was experienced by the Oat hay export industry where Australian hay was responsible for killing cattle in Japan. The contaminant was ryegrass seed contaminated with toxic galls from a plant condition called Annual Ryegrass Toxicity.¹ While export standards were introduced to enable export hay to recommence no similar work has occurred to protect our wheat exports.

Australia cannot afford to allow its physical quality standards to be compromised for short term exporter competitiveness. One shortcoming of losing the single desk is that we now have a situation where one export consignment from one contaminated wheat crop could threaten the whole industry. GRDC is in the best position to take a lead role in preventing potential threats of this kind to export grain.

Intellectual Property Compliance

While my company failed to create a place for its unique quality wheat varieties other private breeders failed for quite different reasons. Grain growers have a tradition of saving seed from their own crops to re-plant in future years. This practice is known as Farmer Saved Seed (FSS). While this practice can have some deleterious affects on future crops due to genetic drift, at least for wheat the risks are low.

The investment model for wheat breeders relies on a novel method of royalty return called End Point Royalties (EPR). A description of this method is detailed in the attached paper that I presented to the Canadian Seed Trade Association in 2007 “Funding Plant Breeding in Australia – A Review of End Point Royalties and Future Funding Requirements”. The essential process of EPR is where the grower only pays the breeding company a return on its investment by way of a small amount per tonne for the grain produced after the grain has been delivered to the grain buyer. Private plant breeder models were based on 60% to 70% compliance from EPR growers but the reality is that grower compliance is significantly lower than this. Grower’s failure to comply with EPR contracts and some “over the fence” trading is a breach of the Plant Breeders Rights Act.

The PBR Act is deficient in a number of areas and this has resulted in no successful prosecutions against grain growers. The Australian Seeds Federation has lobbied the PBR office for years to have the act changed.² A current review into the Act has been extended but the industry has little faith that any significant changes will occur.

For the reasons detailed above, private sector investment in wheat breeding is essential for a sustainable wheat industry. Grower’s and the Federal Government, via GRDC are funding most of the current wheat breeding activities in Australia but given other issues such as wheat classification, the need to fund programmes associated with production systems and export quality threats, this cannot continue. Compliance with intellectual property laws must improve or breeders will be forced to use other forms of intellectual property such as patents to protect their inventions. (Patents do not have any exemptions such as “farmer saved seed and the breeder’s exemption.)

The author:

Donald Coles was the founder and owner of Australia’s first private wheat breeding company Access Genetics, now owned by Nufarm.

Donald also owns a plant breeding company Valley Seeds which specializes in pasture seed of which Access Genetics was a spin off company.

A long history of senior positions in the Australian Seed Federation (ASF) Donald chaired the Biotechnology Committee of ASF and was appointed as a member of the Gene Technology Regulator, Community Consultative Committee.

With breeding and identity preservation experience of over 30 years Donald also has extensive contacts with breeders from Australia and around the world.

¹ Pesticide Residues in Food and Drinking Water Human Exposure and Risks, HAMILTON & CROSSLEY 2004, p 261.

² Australian Seed Federation, Submission to the Options paper released by the Advisory Council on Intellectual Property For The review of enforcement of plant breeder’s rights, AUGUST 2008