

Grain supply chain reforms needed to remain competitive

AUSTRALIA needs to continue to reform its export grain supply chains to remain competitive in an increasingly challenging global grain market, according to a new



AEGIC Chief Economist Professor Ross Kingwell.

report from the Australian Export Grains Innovation Centre (AEGIC).

The report, *Australia's Grain Supply Chains: Costs, Risks and Opportunities*, found that despite major investments to improve efficiency in Australian supply chains since 2014, costs to users have only slightly decreased or remained stable.

AEGIC Chief Economist Professor Ross Kingwell said the costs of Australia's supply chains and grain production were high in comparison to most competitors (except Canada, where costs were higher due to long transport distances).

"Supply chain costs are consistently 30–35 per cent of the total cost of grain production in Australia and this percentage is similar across competitor countries," he said.

"Even so, these competitors – such as Ukraine, Russia and Argentina – are benefiting from lower labour costs and increased economies of scale due to large production increases.

"In Australia, overall supply chain costs have either fallen slightly or stayed steady. It is important to note there are differences between Australian states (Figure 1).

"Decreases in the costs of some components of supply chains, for example freight, have been offset by increases in the cost of others, such as ports. The creation of new port facilities has created more flexibility for exporters."

Prof Kingwell said action should be taken to ensure Australian grain stays competitive.

"Australian grain needs to remain attractive to international buyers, therefore it needs to remain affordable and be fit for

FIGURE 1: Comparison of Australian wheat supply costs



TABLE 1: Estimated supply chain costs (\$/t) in Australia and other wheat export competitors, 2013-17

Costs (\$/t)	2013	2014		2015-16	2016		2017	
	Australia	Canada	Australia	Ukraine	Russia	Australia	Argentina	Australia
Cartage farm-site	8.9 (12%) ^a	10.7 (10%)	8.9 (11%)	4.3 (8%)	3.5 (6%)	7.8 (9%)	2.9 (5%)	7.8 (11%)
Upcountry handling	11.9 (16%)	15.2 (14%)	14.4 (17%)	7.7 (14%)	9.2 (16%)	18.4 (22%)	13.2 (21%)	10.4 (15%)
Storage	6.8 (9%)	17.7 (16%)	8.9 (11%)	2.9 (5%)	5.1 (9%)	9.0 (11%)	1.4 (2%)	5.0 (7%)
Transport upcountry to port	21.6 (29%)	46.8 (44%)	27.8 (33%)	13.3 (23%)	15.5 (28%)	26.7 (32%)	29.5 (47%)	23.6 (33%)
Port charges	21.2 (29%)	13.9 (13%)	21 (25%)	23.8 (42%)	22.4 (40%)	19.9 (24%)	15.5 (25%)	21.7 (30%)
Levies and check-offs	2.9 (4%)	3.0 (3%)	2.8 (3%)	4.9 (9%)	0.10 (<1%)	2.8 (3%)	nd	2.8 (4%)
Total supply chain cost	73.3	107.3	83.8	56.9	55.8	84.6	62.5	71.3
Production cost	nd	139.1	157.1	133.0	121.1	148.3	140.0	148.8
Supply chain proportion	nd	0.44	0.35	0.30	0.32	0.36	0.31	0.32

^a Figures in brackets are the cost item as a proportion of the total supply chain cost.

nd — no data

Source: AEGIC and GRDC

purpose with the characteristics required or desired by end-users," he said.

"Australia's grain industry will increasingly need to concentrate on exporting to premium-paying nearby markets and delivering high quality wheat with characteristics not easily or cheaply replicated by competitors."

The challenge from low-cost producers such as Ukraine, Russia and Argentina is unlikely to dissipate, according to Prof Kingwell.

"Significant investments are underway in these countries that will further challenge the competitiveness of the Australian industry," he said.

"AEGIC's report identifies important areas of reform that are likely to produce enduring benefits for Australia's grain supply chains."

Key findings

Costs stable

The real costs to users of most export grain supply chains have remained stable or slightly decreased since 2014.

Costlier than most

Australia's grain supply chain costs are higher than its competitors, except for Canada (Table 1). Transport and port charges are generally the biggest supply chain costs.

Regulation

Regulation of grain exports has reduced flexibility and imposed additional costs.

Code of conduct

Moving to a voluntary code of conduct may provide Australian supply chains with the flexibility to meet future challenges from low-cost wheat exporters such as the Black Sea and Argentina.

Long-term freight planning

Coordinated long-term planning for high-capacity freight corridors to avoid conflict with urban development will be an important ongoing requirement.

Location

Grain production at low-yielding locations distant from port are likely to become increasingly expensive relative to high yielding locations near to port.

Farm storage

Increased farm storage capacity, particularly in eastern

Australia, is changing the demand for upcountry commercial storage of grain.

Grain quality

As grain storage options and pathways to markets increase, the Australian industry needs to consider how to best ensure stewardship obligations for grain quality are understood, accepted and maintained.

Containerised exports

About 10 per cent of Australia's export wheat is in containers, with about half exported from Victoria.

Excess port capacity

There is a surplus of capacity at some eastern Australian ports.

Eastern states complexity

Compared with WA and SA, grain transport in NSW, Victoria and Queensland is complex. Infrastructure planning and supply chain investment on the east coast is challenging.

Business transparency

Greater transparency in business performance reporting will build trust in the main companies providing supply chain services.

Costs can be reduced

Reducing Australia's supply chain costs is feasible through coordinated infrastructure investments and emerging innovations.

Costs need to be reduced

Low-cost grain suppliers, such as the Black Sea and Argentina, are undertaking major investments in their supply chains and it is essential Australia acts to reduce its supply chain costs to face this challenge.

Recommendations

These recommendations identify important areas of reform that are likely to produce enduring benefits.

Ensure least-cost grain paths are developed and maintained

First: Better coordinate road regulation, planning and investment in roads to facilitate effective planning and investment by grain supply chain owners and operators.

Second: Vigilance needs to be maintained over least-cost grain pathways to prevent encroachment of incompatible urban development leading to future conflict and contest over land use.

The cost of failure over this issue, at all levels of government, could be high in real terms for growers and users of the supply chains.

Align wheat breeding, classification, assessment and handling to support the export of Australian wheat to differentiated, premium markets

Wheat exports from Australia and domestic marketing of wheat are likely to involve greater segregation, especially as on-farm storage increases. It is vital that all stakeholders (breeders,

varietal classifiers and grain handlers) have incentives that align to deliver the types of Australian wheat most preferred in differentiated, premium markets.

Ensure there are sufficient incentives for R&D investment to improve the cost-efficiency of supply chains

Technological improvements that lead to productivity improvements and reduced supply chain costs will increase the competitiveness of Australian supply chains. Whether

existing providers of supply chain services have sufficient incentives to commit funds to R&D that may yield valuable outcomes, requires further examination.

Supply chain owners should consider making the basis of component charges clearer, to increase confidence in supply chains and improve perceptions of fairness

Greater transparency regarding the basis of component charges – including infrastructure use and efficiencies – could become a point of competitive advantage and a pathway to lessened regulation and associated costs. Information can be provided to an independent third party to maintain commercial sensitivity.

FIGURE 2: Australian grain export infrastructure

