What The World Wants From Australian Wheat

STAKEHOLDERS REPORT 2011
A Grain Growers Limited Report
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List of Acronyms

APH Australian Prime Hard wheat
APH1 Australian Prime Hard wheat (trading standard, >14 per cent protein, 11 per cent moisture basis)
APH2 Australian Prime Hard Wheat (trading standard, >13 per cent protein, 11 per cent moisture basis)
AH Australian Hard wheat
ASW Australian Standard White wheat
ASWN Australian Standard White Noodle wheat
APWN Australian Premium White Noodle wheat
DNS Dark Northern Spring wheat (United States)

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Executive Summary

This report is a summary of the findings of a research and study program undertaken by Grain Growers Limited and supported by the Department of Agriculture, Fisheries and Forestry. The study was designed to provide an understanding of what the buyers of Australian wheat want from the Australian wheat industry. It follows on from previous reports – *What The World Wants from Australian Wheat Growers* in 2004 and *What the World Wants from Australian Wheat: Update 2010*.

As well as providing a summary of detailed analysis of current wheat industry data, this report presents the perceptions of selected millers and bakers on how well Australian wheat performs in a production environment.

Interviews were held with flour and stock/feed manufacturers in Australia and flour millers in South East Asia, North Asia, the Middle East and Europe. The interviews provided insights into what buyers valued about Australian wheat, and where they had concerns.

**Buyers valued:**

- Australian wheat’s white seed coat which is preferred when milling flour for Asian noodles, steamed breads, dumplings and various flatbreads.
- The low moisture content of Australian wheat because it enabled safer storage under conditions of high humidity and because it represents good value.
- The use of Australian wheat for the manufacture of traditional Asian foods because of its product colour and texture advantage. However competitors are developing wheats to compete for this market.

**Buyer concerns included:**

- Australia’s ability to supply its markets consistently – particularly for APH and ASWN markets. This has resulted in markets learning how to substitute Australian wheat for wheat from other countries.
- Food security, which is a fundamental concern across Asia. Customers are seeking confidence that Australia will continue to export wheat.
- Levels of screenings and foreign material which are seen to be increasing in Australian wheat.
- A preference for North American wheat over Australian wheat for the manufacture of bread in Asia.
- Australia not providing adequate information on crop production and quality to its markets.
- Wheat grade specifications and export standards, which need to be clearly described to the markets. In some cases customers were concerned that they were not receiving wheat that met grade standards but they were unable to confirm this.
- The quality of wheat shipped in containers being less reliable and less consistent than bulk shipped wheat. This applies to a range of important wheat standards and is threatening the overall reputation of Australian wheat.
- The lack of independent monitoring of export wheat shipments in bulk or containers.
- The lack of a single point of contact to address complaints or concerns.
- Australia providing insufficient technical support to its customers and certainly far less than that provided by Canada and the United States.
Genetically modified (GM) wheat – this is still widely regarded as not acceptable for the foreseeable future. There are some exceptions in countries that consider food security a priority and therefore buyers also want reassurance that Australia can protect supply using GM technology if required.

**Detailed Recommendations**

It is reasonable to expect that a strong demand for Australian wheat will continue due to population increase and increased preferences for wheat products as incomes grow. To maximise producer returns it is essential to ensure that Australia delivers a high value product that meets customer requirements. To be an effective competitor in future markets, Australian wheat needs to demonstrate quality improvement, safety and security of supply.

Australia will also need to provide improved information and technical support to build buyer confidence and to better manage supply shortages when certain wheat types are unavailable. The following recommendations have been developed in response to the surveys and interviews conducted with customers and are designed to improve the competitiveness of Australian wheat.

1. A key finding across Asian and Middle Eastern markets was that Australian standards appear to be slipping. To effectively compete, Australia must demonstrate to buyers that standards are improving. This requires actions, including the following:

   1.1 Provide payment for quality at grain receival to encourage producers to improve the quality of deliveries and to avoid the approach of ‘just making cut offs’. Most bulk grain receivals currently operate ‘cliff faced’ payments based on grade standards. This means there is no incentive for producers to do any better than to just meet the standards. Producers need clear price signals to better meet future market requirements.

   1.2 Provide payment incentives for preferred varieties to encourage the production of wheat varieties that are more suitable to the supply of international markets. This is a rapid way to shape grades and improve product consistency.
1.3 Introduce variety testing for all deliveries to ensure that grade integrity is maintained and that producers are paid correctly. This will also support fair and transparent payment of end point royalties. A program to raise producer awareness of correct variety declaration is also considered important to improve compliance.

1.4 Set three-year targets to improve key wheat quality receival standards for the following (measurements to be assessed nationally for milling wheat grades):
   i. Demonstrate improved compliance of wheat variety declarations.
   ii. Demonstrate a reduction in screenings levels.
   iii. Demonstrate a reduction in foreign material levels.
   iv. Demonstrate improvement in test weight at delivery.

1.5 Introduce a voluntary grain certification program which is similar to the National Residue Survey for pesticide analysis. The program will provide a monitoring capability designed to test wheat exports on behalf of sellers and buyers. This will establish data to monitor export standards. This program would be directed primarily to the container trade but should also engage with the bulk export trade (see point 7 below). The service would operate on a cost recovery basis using a single, independent, national laboratory with National Association of Testing Authorities (NATA) accreditation.

1.6 Introduce a voluntary code of practice to meet all contract specifications with a minimum margin for protein and moisture content. Working with an agreed industry margin more effectively deals with sampling and measurement errors to ensure that Australian wheat shipments meet contract specifications.

1.7 Encourage traders and buyers to use specifications to better meet their supply options or buying preferences. This provides for improved supply consistency and assists the meeting of buyer expectations. For example, if a seller can supply lower screenings levels there should be opportunity for reward incentives in line with the payment for quality at receival. This will provide payment incentives for exporters to meet contract specifications.

2. All parts of the Australian grain industry need to work to actively maintain its current advantage for Asian food products, including a range of noodle types, Chinese steamed breads, dumplings and various flatbreads. This should be done through effective branding and improvement in key quality characteristics. This will require crop shaping activities including careful management of variety releases and classification, and transparent price signals to producers. This will require actions such as:

   2.1 Improving the flour colour of all wheat grades. The detail of changes to wheat grades will vary from grade to grade and in some cases the benefit may be demonstrated through improved consistency between varieties within a grade. Detailed grade targets need to be developed in conjunction with the wheat classification program.

   2.2 Improving the colour stability of all major wheat grades. This could be achieved through the encouragement of preferred varieties and wheat classification.

   2.3 Improving starch properties for Asian foods. Australian wheat is considered to have texture benefits due to specific starch types. This is extremely well understood for our ASWN types in Western Australia; however, it is less clear for other grades that are also used for noodle production. Clear targets should be established in the next three to five years. This may require new research to establish optimum targets.

3. Australia must provide better information on wheat production during the season and on grain quality from each harvest. This should be done under a generic Australian brand. Better information on export grades and standards is also required along with communication of any significant industry events that may affect supply or logistics. Better information will assist buyers when supply is uncertain as it allows more informed planning. This is one way to address climate and other issues that
affect continuity of supply. The timeliness and accuracy of this information will be important to build Australia’s reputation as a sophisticated wheat supplier. More specifically, Australia requires communication of:

3.1 regular crop and weather forecasting.
3.2 a national crop quality report.
3.3 timely crop production and trade statistics.
3.4 user friendly export grade descriptions.

4. The wheat industry must actively pursue methods to manage storage insects without risking maximum pesticide residue limits or promoting pesticide resistance. With increasing on-farm storage Australia will need intensive programs to assist producers to meet these goals. It is strongly recommended that extension programs to promote safe storage continue to be supported. This should be backed with effective biosecurity programs for the grains industry.

5. A program is required to develop Australian wheat and baking technology to assist Asian customers to use more Australian wheat for baking applications. This is considered a long term target of five to ten years, but it will allow Australia to be part of the value growth that is taking place in bakery products across Asia.

6. Australia should consider the introduction of a traceback system for grain. It is anticipated that demand for quality assured grain will rise significantly in the next five years, particularly to service the domestic industry. This presents an opportunity for Australia to lead the international export trade with traceability and grain that has quality assurance back to the paddock. For the foreseeable future this will only apply to containerised trade rather than bulk shipments. Integrating key elements of quality assurance into farm management software is considered the best way forward.

7. A voluntary accreditation system should be introduced for companies exporting grain in containers. A small proportion of containerised trade that does not meet acceptable standards is undermining the reputation of Australian wheat. This has the potential to have a widespread and significant negative impact.

A voluntary accreditation system would include:

7.1 Introduction of competency based certificates in contracting and grain technology for export.
7.2 Development of new voluntary accreditation guidelines for container packing sites.
7.3 Limiting accreditation to facilities that can test and mix grain prior to packing.
7.4 Requirement for packing sites to pass an annual inspection which could be aligned with the Australian Quarantine and Inspection Service (AQIS) requirements.
7.5 Staff directly engaged at packing sites to complete sampling and testing certificates.
7.6 Packers to participate in the National Residue Survey in order for all grain exports to retain accreditation under the voluntary certification program.

8. The Australian wheat industry needs to take a clear policy position on GM wheat and prepare communication packages for customers. An effectively communicated policy will assist international acceptance of Australia’s position. The communication must address food security and safety.

9. The Australian wheat industry requires investment to maintain technical engagement with key customers, targeted at growing the value of wheat exports. Technical programs include: training, product development and variety assessment programs. A major objective of the program is to provide customers with improved knowledge of Australian wheat and confidence that it will meet their quality requirements.

10. Australia should actively communicate the technical capability of Australian grain producers to improve continuity and consistency of supply. This should include:

10.1 Demonstrating clean grain production and storage practices, sustainable production methods, optimal responses to climate and ongoing productivity gains.
10.2 Direct engagement between producers and wheat buyers or users directly, so that buyers better understand what producers are doing to achieve these targets.

10.3 Producer training in technical grain and market components to support general leadership skills development.

11. A better understanding and documentation of direct quality comparisons between Australian and competitor wheat grades is recommended.

12. The maintenance of an effective wheat classification system.

13. Repeating the surveys and interviews carried out for this study on a regular basis to ensure that customers are listened to and a response given will benefit the Australian wheat industry.

14. Farming systems to further develop wheat production in high rainfall zones should be explored to provide greater continuity of supply across drought years.

15. The Australian wheat industry should aim to be recognised as the most technically advanced in the world. Given production circumstances, Australia must have technically sophisticated responses to deal with climate, pests, transport and the delivery of consistent quality grain. This requires programs of thought leadership, farmer leadership, strong R&D programs and opportunities to engage across the industry. Programs to drive leadership and industry development will be required to achieve this goal.

16. Strong branding is recommended to promote the development and improvement of Australia’s wheat grades.

**NEXT STEPS**

GrainGrowers will undertake to engage government and industry to develop appropriate actions to respond to the recommendations. In the first instance, a communication program will be undertaken and this will be followed by a series of ‘round table’ forums to develop action plans. GrainGrowers will take responsibility for driving this process and it is intended that these meetings will be held in the second half of 2011.

Engagement with the industry will include stakeholders from across the supply chain from breeding to consumption.
Customer Feedback

**APPROACH**

This section summarises the key points arising from the surveys and interviews held with domestic flour millers and stock feed companies, and with international flour mills purchasing Australian wheat. The information collected has been combined to avoid any risk of breaching the confidentiality of individual companies.

For the domestic market a total of 13 flour millers and stock feed manufacturers was surveyed with a questionnaire and some were also interviewed.

For the export market a total of 31 companies was visited across the regions of South East Asia, North Asia, the Middle East and Europe. These visits were either arranged directly by GrainGrowers or with the assistance of Austrade. In South East Asia, assistance was also provided by Global Grain. Participants were sent a letter to explain the project and provided with a copy of the report *What the World Wants from Australian Wheat: Update 2010*.

Interviews were conducted with each company to establish wheat use, scale and target markets. The interview then covered requirements for wheat quality, information and technical support. Cooperation with the surveys was excellent and the companies appeared keen to contribute towards improvement of the future supply of Australian wheat.

**FINDINGS – DOMESTIC**

- Domestic flour and feed millers purchase wheat through a range of options including direct contracts with individual producers, direct purchase from producers and purchase from traders who may or may not have their own storage capability.

- Domestic buyers were generally satisfied with wheat quality standards and their ability to select wheat suitable for their end use purposes. This included satisfaction with the receival standards and wheat classification. For flour millers the classification system was considered very important; however, for some feed businesses variety classification was not considered important.

- Flour millers would like more wheat quality information on wheat varieties that have been classified. In particular, information on end use functionality was considered important.

- Flour millers and feed buyers were concerned about on-farm storage and grain treatment. Their confidence in on-farm storage decreased when wheat was stored on-farm for longer than six months. Some buyers were already purchasing quality assured grain and it is considered that the demand for such grain will increase. By 2015, the majority of domestic flour and feed millers considered that on-farm quality assurance will be essential.

- Effective quality assurance systems beyond the farm gate for transport, storage and handling were considered very important, if not essential.

- Traceability of wheat supply was considered to be important and will be essential by 2015.

- The domestic industry considered that it has good input into the development and classification of new wheat varieties.
The domestic industry was generally satisfied with the level of information they had available to make purchasing decisions. Some domestic buyers indicated that good information on the grain quality of wheat varieties was hard to obtain.

The domestic flour and feed millers did not consider that GM wheat would be accepted for Australian food production in the foreseeable future. It was considered that this was driven by consumer preference.

**Findings – South East Asia**

There is a need for more information from Australia in the form of production updates to better understand the supply opportunities from Australia and for a timely national crop quality report. Companies would appreciate presentation of written reports and regional seminars to supply this information.

Another consistent theme was the need for export standards. It is considered that the Grain Trade Australia (GTA) receival standards are not appropriate for export and are confusing. Most companies interviewed would like a clear set of export standards to be published by an independent body.

Many companies would like to see an independent organisation apply the export standards in similar fashion to the Federal Grain Inspection Service in the United States. Customers did not feel that it had to be a government service but must be independent of the trade and not paid for directly by the exporter.

Australian wheat is still recognised to have value as a white wheat that has low moisture content. In South East Asia this was recognised as a significant advantage for safe grain storage.

A number of customers questioned whether Australian wheat could still claim to be clean, as they had observed a significant increase in screenings. This observation was more strongly associated with container based grain shipments.

Australian wheat is still recognised to have significant advantages for the production of Asian noodles and other traditional Asian foods. It appears that this is due to a combination of colour and texture characteristics.

Flour colour and colour stability are very important quality advantages for Australian wheat in South East Asia.

It is considered that Canada is close to achieving a regular supply of credible white wheat which will compete more directly with Australian wheat.

Australian wheat is not well regarded for baking quality in South East Asia. However, it is used in blends by several companies. United States and Canadian wheats are typically preferred for baking applications and generally represent the higher value markets in South East Asia. It is also recognised that the baking industry is driving growth in markets such as Indonesia, Thailand and Vietnam.

Australia is not providing adequate technical assistance to help markets. This is perhaps best exemplified by Indonesia where our largest market has had little help to use Australian wheat in the past five years. This market is particularly interested in baking applications.

Buyers expressed major concerns with the container trade from Australia. It is considered that quality variation within and between shipments is destroying the reputation of Australian wheat.

Bulk cargoes provide better consistency than containers. Consistency is critical to their businesses as is information on grain shipments to allow planning for storage and blending and it appears that almost no Australian supplier is providing this service.

Australia was encouraged to maintain a clear grading system with well communicated standards. It was felt that Australian traders were starting to blend and modify the grade standards, creating some uncertainty. Again this feedback appeared to be more strongly associated with containerised trade.

The freight advantage for South East Asia is a significant one and Australia should be able to dominate this market.
The use of APH in South East Asia is highly significant and a high proportion of this wheat is used for instant noodles to achieve a firm and stable texture. High dough strength is also considered important for this market.

Information on wheat varieties would be helpful to plan ahead.

Options to select wheat from ports or particular locations would be an advantage.

The South East Asian market does not require on-farm quality assurance at this stage. However some companies indicated that if it helped reduce the variation experienced with containerised grain it would have value.

While buyers are price sensitive they are also looking for consistency and quality. They would prefer to buy from Australia and North America to reduce supply risk and protect their own businesses.

Food security is a major concern in this region and it is considered that this may assist the acceptance of GM wheat.

**Findings – North Asia**

Concerns were expressed over the consistency of supply from Australia. The inability to consistently supply APH has lead to some substitution using DNS from the United States. For example, this has resulted in a significant decline in APH exports to Japan. The quantity and quality of noodle wheat from Western Australia was a major concern in both Japan and South Korea. Exports of noodle wheat to Korea have been declining and this was attributed to concerns over supply.

There is a need for more information from Australia in the form of crop production updates and a timely national crop quality report. Companies would appreciate presentation of written reports and seminars to supply this information. Most companies referenced the US Wheat Associates model for the supply of information as the most useful. Some companies indicated that they were receiving information from Australian companies; however, they considered that an independent national source is required to support the positioning of Australian wheat.

Another consistent theme was the need for export standards. It is considered that the Grain Trade Australia (GTA) receival standards are not appropriate for export and are extremely confusing. There is also a need to better communicate changes to grades. There was confusion or uncertainty expressed about the new APWN grade. Most companies interviewed would like a clear set of export standards to be published by an independent body.

The Japanese market is likely to further deregulate wheat purchasing, although there is no specific timeframe for this change. Deregulation will have a major impact on wheat selection and value chain relationships. The need to engage the Japanese flour millers over the next few years is extremely important if Australia wants to retain market share. The greatest challenge will be to demonstrate that Australia can be a reliable supplier of high quality noodle wheat.

Some companies would like to see an independent organisation apply the export standards in a similar fashion to the Federal Grain Inspection Service in the United States. There was a preference for this organisation to be government based.

Australian wheat is still recognised to have value as white wheat that has low moisture content.

A number of customers indicated that the cleanliness standard of Australian wheat had slipped and that in many cases Australian wheat had lost its advantage over other suppliers.

Australian wheat was recognised to have significant advantages for the production of Asian noodles and other traditional Asian foods. It appears that this is due to a combination of noodle colour and texture characteristics. The purchase of Australian wheat in North Asia is almost exclusively for the production of udon and ramen noodles in Japan; instant and white salted noodles in Korea; and instant, white and yellow alkaline noodles in Taiwan. The starch properties of Australian wheat were seen as key to these products.
Japan is working hard to improve the quality of domestic wheat for the udon market. The Japanese millers see this as a viable alternative to reduce dependency on Australia and avoid the premiums paid for Australian noodle wheat.

Flour colour and colour stability are very important quality advantages for Australian wheat in North Asia.

Australian wheat is not considered suitable for baking in South Korea or Japan. United States wheat dominates bakery applications with some blending of United States and Canadian wheats. Most companies had not tried or tested Australian wheat for bakery applications for some years. The two baking companies interviewed were very interested to see trials of Australian wheat. The bakery market in Japan is considered quite mature and there are few new or major trends, although there is a high turnover of new products. There is some move to whole wheat breads. In South Korea there is rapid growth of ‘window’ bakeries and bakery cafes. It is considered that the younger generation is changing its eating habits to adopt more Western foods and this could shift some Korean consumption from noodles to bread. It was recognised in both countries that the bakery market was higher value and had more opportunities for value growth.

Australia does not appear to be providing adequate technical assistance to help the North Asian markets. These countries were keen to engage in technical exchange. The Japanese companies are looking to improve their positioning when the Japanese market deregulates and they are aiming to form more direct relationships and their own information. Koreans were interested in testing other Australian wheat types for different applications. In Taiwan there was still interest in the optimisation of milling Australian wheat. Customers in each country cited the United States approach of introducing new wheat varieties through testing exchanges to help them adjust their buying patterns.

Most wheat trade in Japan and Korea uses bulk shipments with only minor container trade for the supply of APH into Japan. Supply of wheat to Taiwan was mostly containerised. Companies acknowledged that there were more quality issues experienced with containers than bulk wheat. Concerns were expressed that issues with container shipments were undermining the reputation of Australian wheat.

The bulk export market is not yet ready for on-farm quality assurance. Buyers of bulk grain considered that there were other priorities and that it would be difficult to achieve shipments that were backed by on-farm quality assurance systems. However, buyers purchasing in containers considered that on-farm quality assurance and traceability would provide additional confidence when purchasing wheat. The common question from the millers was how much this would cost.

While buyers are price sensitive they are also looking for consistency and quality. They would prefer to buy from Australia and North America rather than the Black Sea or Russia to protect their own businesses. Purchase of wheat from suppliers other than Australia and North America was associated with higher risk.

There are significant concerns over the introduction of GM wheat in the foreseeable future. In North Asia the issue of GM wheat is considered one of food safety and until consumers accept the products as safe to eat, the food manufacturers will not risk production.
Findings – Middle East

- Australia continues to be an important supplier of wheat to the Middle East region. Most wheat is shipped from either Western Australia or South Australia.

- In contrast to South East and North Asia, Australian wheat was primarily used for the production of bread including a range of flatbreads and European style bread. Flatbreads represent the most important products consumed in this region.

- A number of companies have, for many years, used Australian wheat for the majority of their supply. It was considered that this was based on familiarity with the product and excellent performance of Australian wheat for milling yield and flatbread production.

- There was some concern about reduced dough strength in the AH class and that this was expressed as reduced dry gluten content.

- Australian durum is highly regarded in the region although some shipments have been found to contain lower Minolta b values. Also, supply of Australian durum was considered less consistent than from Canada. The buyers noted that they are not able to specify where the durum is supplied from since it is typically purchased only as Australian durum.

- There is a preference for North American wheat over Australian wheat for the production of European style bread or hamburger buns using the sponge and dough process. AH and APH wheat were considered to be too extensible and less stable than North American equivalents.

- The strongest advantage identified for Australian wheat was the white seed coat. This was considered extremely important to the good milling performance and flour colour for flatbread production, including production of high extraction flours.

- Australian wheat was also considered to be a safe product with good compliance to pesticide residue limits and other contaminants.

- Other flour mills which had historically used Australian wheat were now sourcing wheat from alternative suppliers including North and South America, Europe, Pakistan, India and the Black Sea region. Wheat purchasing was very much driven by price. The mills considered that Australian wheat could be blended with other wheats and used to effectively supply their markets.

- There is an increasing market for stone ground wheat for traditional products for Indian and Pakistani bread products. Australian wheat is highly regarded for this application; however, some Indian wheat has been demonstrated to have superior performance.

- Buyers in the Middle East consider that it is harder to find the wheat that they want from Australia and that the supply is less consistent than in the past. Buyers may have had a preference for particular port zones in the past which they cannot access or specify under the current trading arrangements.

- When a shipment does not meet expectations the millers do not feel that their concerns have been adequately addressed. They would like to see an organisation that can arbitrate or represent these concerns.

- It was considered that Australia should hold on to its grading system and trade wheat consistently with the grades. Millers were confused about wheat types that were traded outside the grade standards and considered that this was becoming more common. The buyers did not appear to trust wheat that was traded outside the regular grades but felt that sometimes there was little option. An extension of this point was the need for clearly communicated grade standards.

- Millers consistently wanted more information on production and crop quality. They considered that the level of information available from Australia was not adequate and could be confusing. There were very clear requests for a national crop quality report with an emphasis that this must be timely. All millers considered that seminars to explain the report were extremely valuable.
Mills were interested in new wheat varieties and the potential to look at new products.

It was considered that communication from Australia was not frequent enough. As customers they feel their suppliers do not understand their business and they are looking for stronger and more technical relationships.

Training courses in milling and baking are still required in the region.

On-farm quality assurance was not considered important at the moment. However, buyers could see benefits in the future.

The millers considered that GM wheat would be accepted in the Middle East; however they expected that this may be at least five years away.

Food security was a fundamental concern and governments are investing in a range of strategies to secure supply and stabilise prices. This includes the construction of new grain storage facilities.

**FINDINGS – EUROPE**

Australian durum is very highly regarded and is frequently blended with local durum to raise the protein content and dough strength of grists. The buyers encouraged Australia to maintain high quality standards as they expressed concern that durum quality was deteriorating in Europe. In particular, Australian durum was recognised to be clean, dry, vitreous, free milling, to have good semolina colour and good gluten levels.

Millers want technical support to address food safety issues. For example, European discussions on the levels of heavy metals may affect imports. It is considered that data and support from suppliers could help protect supply.

Durum is now typically supplied as ‘Australian Durum’ without reference to the production zone. In the past, buyers would have been able to specify from which region or port the wheat was supplied.

Australia was encouraged to maintain a clear grading system with well communicated standards. It was felt that Australian traders were starting to blend and ‘play’ with the grade standards, creating some uncertainty.

The independent testing provided by the Federal Grain Inspection Service in the United States was considered the benchmark for export standards. The companies would like to see Australia have some form of independent testing to provide greater confidence in export standards.

It was considered that Australia needed to be more aggressive in the market. Since deregulation of the Australian market, communication from Australia is considered to have been poor. It was recommended that Australia provide annual crop seminars in a similar fashion to the United States and Canada.

The companies were very interested to participate in variety testing and saw this as an excellent product development opportunity.

Traceability and on-farm quality assurance are highly desirable for the European market.

Australian wheat is considered clean and to have excellent compliance with pesticide residue limits. Maintaining this position is critical for the European market where food safety is considered very important.

GM wheat will not be considered in Europe for the foreseeable future.
The Global Wheat Market

An updated desk top study of relevant data has been completed to provide a global context for Australian wheat exports. This builds on the report *What the World Wants from Australian Wheat: Update 2010*. The following section also provides useful background to support the market reviews.

**EXPORTERS**

The world market has four major traditional exporters (United States, Canada, Australia and Argentina) plus the European Union and the Black Sea Port countries (Figure 2.1). In total they export about 130 Million Metric Tonnes/year (five-year average).

World wheat production is about 600 Million Metric Tonnes/year of which the traditional exporters, the European Union and the Black Sea Port countries produce 350 Million Metric Tonnes/year and India and China produce about 188 Million Metric Tonnes/year. The area planted to wheat across the world is about 200 million hectares and has been constant over a long period (Figure 2.2). Thus, yield growth has been essential to increased world production.

The world’s wheat markets are inherently unstable (Figures 2.3 and 2.4). The demand and supply relationships are inelastic so that small changes in production or consumption can lead to very large relative changes in prices. This is an inbuilt characteristic of the behaviour of wheat consumers and wheat producers. Thus, Australian producers face a degree of instability that must be managed.

*Figure 2.1. Shares of world wheat exports*
Figure 2.2. Global wheat production, consumption and area planted

Figure 2.3. Long-term all wheat prices for the United States
Over a long period of time, the shares of production and the shares of world trade of Canada and the United States have declined (Figure 2.5). Recently the Black Sea Port countries have dramatically increased their share as a result of a reduction in the livestock sector and its use of feed grain, and increases in yields. Australia has escaped this long-term decline but has been subject to a high level of variation in the share of both world production and world trade.

World-wide competition for market share is fierce as the Black Sea Port countries take an increasing share of world trade and price accordingly. Much comes from the great plains of Russia, such as along the Volga River, from Kazakhstan and the Ukraine. In these areas, grain production has been replacing livestock production and the infrastructure to handle grain has been improved dramatically. The US Department of Agriculture is forecasting that by 2019 Russia could replace the United States as the world’s largest wheat exporter (Liefert, et al. 2010).
SUPPLY AND DEMAND

Over a very long period of time world wheat prices have frequently ‘spiked’. The global ‘thermometer’ or measure of this phenomenon is the stocks to use ratio (Figure 2.4). When the ratio gets down to about 25 per cent, prices rise rapidly. However, they nearly always fall as rapidly as they rise. The simple economics of this is that the behaviour of wheat consumers and producers is such that a small change in the quantity produced or demanded gives a large change in price. A major reason for this is that bread and other wheat based foods are only a small part of consumers’ budgets. A second important reason is that producers tend to base their production decisions on last year’s price and can adjust the area planted easily. Put these together and you have a market with highly variable prices. Risk management strategies are thus vital for success in wheat production.

IMPORTERS

There are many importers of wheat with none importing more than about 5 per cent of world wheat trade or five to six Million Metric Tonnes (Figure 2.6). Spain, Italy, Algeria, Brazil and Japan are the largest. At times India and China have imported large quantities. A total of 118 countries have imported more than 2,000 tonnes on average over the five years from 2004 to 2009. Australia exports more than 2,000 tonnes to 48 different countries. To maintain market share this will require constant effort in market development. One of the promising areas for development is Saudi Arabia as it cuts back its production of water intensive crops. It has been steadily increasing imports of wheat since 2008/09.
The largest per capita consumers of wheat are in Kazakhstan and Azerbaijan (Figure 2.7). They consume for food and industrial uses almost a kilogram per day. The areas of potential growth in consumption and demand as a result of increasing incomes are countries like India, Malaysia, Indonesia, Thailand, Vietnam and the Philippines.
AUSTRALIAN WHEAT PRODUCTION

Australia’s annual wheat production varies from 10,000 to 25,000 metric tonnes. (Figure 2.8). Drought is a major cause of this variability. Relative to some other countries, yields in Australia have grown slowly, while area planted has increased slowly from about 9,000 hectares in 1988/89 to 13,000 hectares in 2008/09.

AUSTRALIAN WHEAT USE

Over 65 per cent of Australia’s wheat is exported and the remainder is held or used domestically (Figure 2.9). Of the exports, 40 per cent is APW and 15 per cent AH grade (Figure 2.10). Domestic use is feed and seed at about 17 per cent and food use about 13 per cent with one per cent as flour exports and an average change in stocks held of one per cent. Feed wheat is largely used in eastern Australia with about one third each in Queensland, New South Wales and Victoria.
The pattern of demand for Australia’s wheat exports varies in some interesting ways. Australia has maintained its export share over a long period but has been subject to approximately a ten-year cycle in export share and in the share of world production (Figure 2.11). This cycle has little to do with drought but is likely to be related to sheep and cattle numbers and the longer-term substitution between sheep, cattle and grain. Other major exporters do not seem to have such cycles.
Australia’s importers

Indonesia is Australia’s largest wheat importer by more than a factor of two but Italy, Sudan and Japan have the highest unit values among our export destinations (Italy imports mainly durum) (Figures 2.12 and 2.13). Indonesia is intermediate in value but in total was worth about $US0.7 billion in 2009. Much of this wheat will be milled into flour for noodles and bread with only very small quantities of flour exported to other countries (about 18,000 tonnes in 2009). Meeting the needs of Indonesia is crucial to the future of the Australian wheat industry.
Bulk exports to Indonesia have grown substantially in recent years and Vietnam is the largest destination for container exports from Australia, although Taiwan, Malaysia and Indonesia all purchased over 20,000 tonnes in October 2010. Vietnam has many small mills which limits their capacity to handle large volumes of grain.

Figure 2.12. Major importers of Australia’s wheat

Figure 2.13. Unit import values for major importers of Australia’s wheat
The Australian wheat industry functions in the context of a global market. This market is also fundamentally risky and subject to frequent price spikes. Competition for market share is intense and clearly different countries have very different consumption patterns and consumer preferences. Australia will need to continue to work hard to maintain its market share in the context of such a market and will also be challenged to maintain profitability throughout the industry.

REFERENCES


UN ComTrade (2010), *Trade database*.

USDA (2010), *PSD Online*.


WHAT THE WORLD WANTS FROM AUSTRALIAN WHEAT

25
Country Profiles

In this appendix, key data are given in relation to wheat imports for a range of countries of interest to Australia. The data come from a range of sources and include population, economic growth, per capita income, production consumption and trade, the level of wheat and flour imports and the key countries from which they are sourced. As well, information is provided on the flour milling industry and the retail sector.

The major sources for the data were the United States Department of Agriculture, Production, Supply and Disappearance database (PSD Online), the United Nations Comtrade database for international trade data and the United States Census Bureau International Database (IDB) for population data.²

1 Data on population, GDP growth and income per capita were obtained from the Department of Foreign Affairs and Trade and accessed in March 2011 at http://www.dfat.gov.au/geo/.

2 The websites are:

  PSD Online

  United Nations Comtrade
  http://comtrade.un.org/db/ and

  United States Census Bureau International Database
  http://www.census.gov/ ipc/www/idb/informationGateway.php
Market Profile: China

Population | 1,341 million (2010)
GDP real growth rate | 10.3% (2010)
GDP per capita | USD 4,283 (2010)

**Highlights**
- China is the largest wheat producer and consumer in the world.
- Food security is a major driver of grains policy and this extends to the management of large stocks.
- China has become self-sufficient in recent years but maintains some level of imports to supply wheat for bread making.
- Wheat imports are conducted by a single organisation.
- The Chinese food market presents new opportunities as it responds to a rapid rise in income levels. Higher income levels will lead to increased requirements for grain quality.

**Production, Consumption and Trade**
Overall, wheat consumption in China has been gradually declining (Table A.1). As per capita incomes rise, consumers tend to replace carbohydrates with protein. According to the National Bureau of Statistics of China (2011, Tables 9-9 and 9-29), in-home per capita consumption of grain in rural households has dropped to 199 kg in 2007 from 250 kg in 2000, and in-home per capita annual consumption by urban households also dropped to 78 kg in 2007 from 82 kg in 2000, an annual rate of decline of 3 and 1 per cent respectively.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Production</td>
<td>97,445</td>
<td>108,466</td>
<td>109,298</td>
<td>112,464</td>
<td>115,120</td>
</tr>
<tr>
<td>Imports (wheat, flour &amp; products)</td>
<td>1,018</td>
<td>388</td>
<td>49</td>
<td>481</td>
<td>1,394</td>
</tr>
<tr>
<td>Feed use</td>
<td>3,500</td>
<td>4,000</td>
<td>8,000</td>
<td>8,000</td>
<td>10,000</td>
</tr>
<tr>
<td>Food, seed &amp; industrial use</td>
<td>98,000</td>
<td>98,000</td>
<td>98,000</td>
<td>97,500</td>
<td>97,000</td>
</tr>
<tr>
<td>- Total use</td>
<td>101,500</td>
<td>102,000</td>
<td>106,000</td>
<td>105,500</td>
<td>107,000</td>
</tr>
<tr>
<td>- Total per capita food use (kg/person)</td>
<td>75.5</td>
<td>75.1</td>
<td>74.8</td>
<td>74.0</td>
<td>73.3</td>
</tr>
</tbody>
</table>

Source: USDA, PSD Online and U.S. Census Bureau, 2011

<table>
<thead>
<tr>
<th>WHEAT</th>
<th>WHEAT FLOUR</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States</td>
<td>395,780</td>
</tr>
<tr>
<td>Australia</td>
<td>324,834</td>
</tr>
<tr>
<td>Canada</td>
<td>122,325</td>
</tr>
<tr>
<td>Other</td>
<td>50,770</td>
</tr>
<tr>
<td>- Total</td>
<td>893,710</td>
</tr>
<tr>
<td>- Australian share (%)</td>
<td>36.3</td>
</tr>
</tbody>
</table>

- Total | 10,615 |
- Australian share (%) | 31.7 |

Source: UN Comtrade, 2011
As demand for traditional wheat products such as Chinese steamed breads declines in preference for convenience foods, including instant noodles and bakery products, wheat quality is becoming a more important factor for millers.

**Flour Mills**

China has an extremely large flour milling industry with several major players including COFCO Limited.

**Consumer Trends**

Traditional Asian foods still dominate consumption with noodles representing around 30 per cent of wheat flour consumption and Chinese steamed bread another 30 per cent. The remainder of the market is shared by European style bread, cakes and other traditional foods including dumplings. Increased wealth is driving greater convenience and changes to retail shopping. This has resulted in more centralised production in large factories rather than small artisan supplies and with this there is an increasing need for a more consistent and higher quality wheat supply.

**References**


Market Profile: Egypt

**Population**  
78.2 million (2010)

**GDP real growth rate**  
5.3% (2010)

**GDP per capita**  
USD 2,771 (2010)

**Highlights**

- Egypt remains a major wheat importer.
- Australian wheat exports to Egypt have decreased significantly over the past 15 years.
- Flatbreads are the major food product manufactured from wheat flour and the government applies a subsidy and price control.
- The industry is dominated by public sector flour mills and bakeries.

**Production, Consumption and Trade**

Egypt has one of the highest wheat per capita consumption levels in the world. About 50 per cent of the total consumption is derived from imports. Most domestic production is sold directly to consumers or is retained by farmers for on-farm consumption.

**Table A.3 Wheat Production, Imports, Consumption and Use in Egypt, 2006/07-2010/11 (000 tonnes)**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Production</td>
<td>8,274</td>
<td>8,275</td>
<td>7,977</td>
<td>8,253</td>
<td>8,500</td>
</tr>
<tr>
<td>Imports (wheat, flour &amp; products)</td>
<td>7,300</td>
<td>7,700</td>
<td>9,900</td>
<td>10,300</td>
<td>9,800</td>
</tr>
<tr>
<td>Feed use</td>
<td>2,000</td>
<td>2,000</td>
<td>2,600</td>
<td>2,600</td>
<td>2,600</td>
</tr>
<tr>
<td>Food, seed &amp; industrial use</td>
<td>13,300</td>
<td>13,800</td>
<td>14,600</td>
<td>15,300</td>
<td>15,800</td>
</tr>
<tr>
<td>– Total use</td>
<td>15,300</td>
<td>15,800</td>
<td>17,200</td>
<td>17,900</td>
<td>18,400</td>
</tr>
<tr>
<td>– Total per capita food use (kg/person)</td>
<td>183.3</td>
<td>186.2</td>
<td>192.9</td>
<td>198.0</td>
<td>200.3</td>
</tr>
</tbody>
</table>

Source: USDA, PSD Online and U.S. Census Bureau, 2011

Egyptian wheat and flour imports in 2008/09 were around 4.5 million tonnes with the Russian Federation and the United States being the dominant suppliers followed by Australia. Only small amounts of flour are imported (data may be unreliable). The Australian share of the market has varied but is about 10 per cent of the total imports of wheat over the past 5 to 10 years. This is a significant reduction from the mid 1990s when Australia regularly supplied more than one million tonnes. Price has become an important factor in determining the country of purchase and there appears to be a willingness on the part of mills to accept lower quality wheat from sources other than the traditional exporters. This largely explains Australia’s loss of market share.

**Table A.4 Egyptian Wheat and Wheat Flour Imports by Country, 2008 (Tonnes)**

<table>
<thead>
<tr>
<th>WHEAT</th>
<th>WHEAT FLOUR</th>
</tr>
</thead>
<tbody>
<tr>
<td>Russian Federation</td>
<td>1,434,347</td>
</tr>
<tr>
<td>United States</td>
<td>1,075,418</td>
</tr>
<tr>
<td>Australia</td>
<td>452,583</td>
</tr>
<tr>
<td>Ukraine</td>
<td>372,803</td>
</tr>
<tr>
<td>France</td>
<td>299,534</td>
</tr>
<tr>
<td>Other</td>
<td>875,380</td>
</tr>
<tr>
<td>– Total</td>
<td>4,510,045</td>
</tr>
<tr>
<td>– Australian share (%)</td>
<td>10.0</td>
</tr>
</tbody>
</table>

Source: UN Comtrade database, February 2011.

*(2008 data not yet available and Australian exports were adjusted for a data error (by removal of decimal places). These data are likely to be incomplete, see Table A.3. An examination of exports to Egypt from other countries (also incomplete for Australia) using the UN Comtrade database give a total of 8.6 million tonnes of wheat for 2008 and Australian exports to Egypt in 2010 of 553 thousand tonnes. ABARE (2010) reports exports of wheat and flour by Australia for 2008-09 of 449 thousand tonnes.*
FLOUR MILLS

Flour milling in Egypt is highly restricted, although wheat imports have been partially deregulated. The General Authority for Supply Commodities (GASC) buys wheat from around the world with a focus on purchasing cheap wheat. Private mills provide a better opportunity for the supply of higher quality wheat in order to supply markets other than the subsidised flatbread market. In the case of the government purchases for the Egyptian milling sector the most important attribute is price, followed by quality.

The public sector part of the industry consists of 126 mills (mostly small to medium size) and has a total capacity of approximately 7 million tonnes per year (Guven and Ibrahim, 2009). Seven public sector companies operate these mills, and are linked with the Food Industries Holding Company. Of the 126 public sector mills, 109 mills are currently used for the production of 82 per cent extraction flour for flatbreads (Guven and Ibrahim, 2009).

CONSUMER TRENDS

Flatbread is a staple component of the Egyptian diet. There is an increase in other baked goods off a very small base; however, flatbread consumption still represents over 90 per cent of flour use. The most common bread types are Baladi, which is made using high extraction flour, and Shamy which is a white, two-layered flatbread often referred to as Arabic bread.

REFERENCES

Market Profile: Indonesia

<table>
<thead>
<tr>
<th>Population</th>
<th>244 million (2010)</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP real growth rate</td>
<td>4.5% (2010)</td>
</tr>
<tr>
<td>GDP per capita</td>
<td>USD 2,963 (2010)</td>
</tr>
</tbody>
</table>

**Highlights**
- Indonesia is Australia’s largest wheat customer.
- There is increasing demand for Australian Prime Hard wheat.
- Australia has a freight advantage due to its proximity.
- Buyers consider Australian white wheat as a superior choice for noodles with its colour, colour stability and texture properties.
- Opportunities exist to support an increasingly sophisticated market with a focus on wheat quality through the demand for high protein wheat from Australia.

**Production, Consumption and Trade**

Indonesia is Australia’s largest importer of wheat and is in the top ten world importers. Indonesia imports around 5.2 million tonnes of wheat a year and more than 2.6 million tonnes from Australia, mainly from Western Australia. Importation of wheat continues to grow at about the rate of population growth with an increase of 700,000 tonnes between 2004 and 2009. Wheat consumption has increased to reach 21.6 kg/person which reflects the growing preference for wheat-based products and an increase in incomes.

**Table A.5 Wheat Production, Imports, Consumption and Use in Indonesia, 2006/07-2010/11 (000 tonnes)**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Production</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Imports (wheat, flour &amp; products)</td>
<td>5,601</td>
<td>5,227</td>
<td>5,419</td>
<td>5,364</td>
<td>5,300</td>
</tr>
<tr>
<td>Feed use</td>
<td>50</td>
<td>50</td>
<td>50</td>
<td>50</td>
<td>50</td>
</tr>
<tr>
<td>Food, seed &amp; industrial use</td>
<td>5,000</td>
<td>5,100</td>
<td>5,150</td>
<td>5,250</td>
<td>5,200</td>
</tr>
<tr>
<td>Total use</td>
<td>5,050</td>
<td>5,150</td>
<td>5,200</td>
<td>5,300</td>
<td>5,250</td>
</tr>
<tr>
<td>Total per capita food use (kg/person)</td>
<td>21.6</td>
<td>21.7</td>
<td>21.7</td>
<td>21.9</td>
<td>21.4</td>
</tr>
</tbody>
</table>

**Source:** USDA PSD Online and U.S. Census Bureau, 2011.

**Table A.6 Indonesia Wheat and Wheat Flour Imports by Country, 2009**

<table>
<thead>
<tr>
<th>Wheat</th>
<th>Wheat Flour</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia</td>
<td>2,655,519</td>
</tr>
<tr>
<td>Canada</td>
<td>885,306</td>
</tr>
<tr>
<td>United States</td>
<td>603,149</td>
</tr>
<tr>
<td>Russian Federation</td>
<td>283,385</td>
</tr>
<tr>
<td>Ukraine</td>
<td>178,775</td>
</tr>
<tr>
<td>Other</td>
<td>49,151</td>
</tr>
<tr>
<td>Total</td>
<td>4,655,286</td>
</tr>
<tr>
<td>Australian share (%)</td>
<td>57.0</td>
</tr>
</tbody>
</table>

**Source:** UN Comtrade, 2010.
Australia is the largest supplier of wheat to Indonesia, holding a share of 57 per cent in 2009. Canada and the United States are the major competitors holding 19 and 13 per cent shares respectively. Total Indonesian wheat imports were just above 4.7 million tonnes in 2009.

**Flour Mills**

Wheat flour import restrictions were abolished in June 1998 when the market monopoly given to the Board of Logistics (BULOG) was dismantled; however, in 2003 the government introduced a 5 per cent duty on wheat flour to protect the domestic milling industry from international pressures. The result was that flour imports stalled and the development of domestic milling capacity began to grow (Indonesian Commercial Newsletter, 2007).

Since 2008, 10 new flour mills have been built and the number of mills is expected to increase as the market opportunity is considered significant. The types of flour available are still limited; however, this is considered to be an area of rapid change as market competition increases.

Indonesian buyers consider Australian wheat to be a superior choice for noodles. Australian white wheat has an advantage because of its colour, colour stability and texture properties. Canadian wheat is considered the best for bread production. As in many Asian countries, Canadian Western Red Spring (CWRS) is blended with DNS and sometimes with APH to produce high grade flour with high protein levels for the production of European style bread and buns. The bread is typically made with high sugar and fat levels.

**Consumer Trends**

In Figure A.6 Indonesian flour use by product is portrayed (adapted from the Indonesian Flour Millers Association, APTINDO and based on discussions held with Bogassari, 2010).
The majority of flour is used for the production of noodles (Figure A.6). There are approximately 45 instant noodle factories in Indonesia, although only a small proportion of these are considered to be large scale manufacturers. Over 80 per cent of bread is produced by small scale bakeries.

The economic recovery in Indonesia in 2009/10 has helped to drive noodle sales in Indonesia, with instant noodles performing the best. Lower- and middle-income consumers now consider noodles as a convenient meal or quick snack solution. Baked goods also remain popular snacks for busy urban consumers. A growing number of rural consumers are replacing rice with baked goods. As Indonesian consumers continue to prefer rice for their main meal, bread or buns and biscuits are often consumed as a between meal snack. Biscuits are popular amongst all consumer ages and income groups.

**REFERENCES**


Market Profile: Japan

Population | 127 million (2010)
GDP real growth rate | 2.8% (2010)
GDP per capita | USD 42,325 (2010)

**Highlights**
- Japan is a major wheat importer and is recognised as a high value market.
- Bread represents the largest sector of the wheat flour market, although Asian noodles are also considered important.
- Consistency of supply from Australia has been a major issue and the inability to supply APH consistently has lead to substitution using DNS from the United States.
- The market is likely to be deregulated in the next 3–5 years.
- The purchase of Australian wheat is almost exclusively for the production of udon and ramen noodles.
- Flour colour and colour stability are very important qualities in this market.

**Production, Consumption and Trade**
Japan is a very mature and stable market and the market size for wheat has remained at around 6 million tonnes for several years (Table A.7) with demand for bread and noodles also remaining constant. The Japanese food processing industry is large and wheat-based foods are a key component.

**Table A.7 Japanese Wheat Production, Imports, Consumption and Use, 2005/06–2009/10 (000 Tonnes)**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Production</td>
<td>875</td>
<td>837</td>
<td>910</td>
<td>882</td>
<td>675</td>
</tr>
<tr>
<td>Imports (wheat, flour &amp; products)</td>
<td>5,469</td>
<td>5,747</td>
<td>5,701</td>
<td>5,500</td>
<td>5,502</td>
</tr>
<tr>
<td>Feed use</td>
<td>320</td>
<td>300</td>
<td>300</td>
<td>200</td>
<td>300</td>
</tr>
<tr>
<td>Food, seed &amp; industrial use</td>
<td>5,700</td>
<td>5,700</td>
<td>5,700</td>
<td>5,700</td>
<td>5,600</td>
</tr>
<tr>
<td>– Total use</td>
<td>6,020</td>
<td>6,000</td>
<td>6,000</td>
<td>5,900</td>
<td>5,900</td>
</tr>
<tr>
<td>– Total per capita food use (kg/person)</td>
<td>44.7</td>
<td>44.7</td>
<td>44.7</td>
<td>44.8</td>
<td>44.1</td>
</tr>
</tbody>
</table>

Source: USDA, PSD Online and U.S. Census Bureau, 2011.

**Table A.8 Japanese Wheat and Wheat Flour Imports by Country, 2010 (Tonnes)**

<table>
<thead>
<tr>
<th>WHEAT</th>
<th>WHEAT FLOUR</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States</td>
<td>3,305,142</td>
</tr>
<tr>
<td>Australia</td>
<td>1,093,092</td>
</tr>
<tr>
<td>Canada</td>
<td>1,017,907</td>
</tr>
<tr>
<td>Russian Federation</td>
<td>42,059</td>
</tr>
<tr>
<td>Ukraine</td>
<td>13,036</td>
</tr>
<tr>
<td>France</td>
<td>4,049</td>
</tr>
<tr>
<td>Other</td>
<td>336</td>
</tr>
<tr>
<td>– Total</td>
<td>5,475,621</td>
</tr>
<tr>
<td>– Australian share (%)</td>
<td>20.0</td>
</tr>
</tbody>
</table>

Source: UN Comtrade, 2011.
Japan imports most of its wheat from the United States, Canada and Australia. It imports predominantly high protein wheat and some soft white wheat. Australia holds just under 20 per cent of the Japanese import market. The United States holds three times this market share. Typically, the imported wheat is ASWN from Western Australia and APH. Feed wheat is purchased from a range of sources including Russia and China.

The Ministry of Agriculture, Forestry and Fisheries (MAFF) have controlled the purchasing and pricing of both domestic and imported wheat through a simultaneous-buy-sell system (Fukuda 2010 and 2011). This system has the Ministry buy wheat at international prices and then sell it to domestic millers at a mark-up using a ratio of about 2 to 1. MAFF also buys domestic wheat at a high price and sells it to domestic millers at a lower price using the revenue from the international trade in a cost pool system. In general, Japan will pay a premium for security of supply and quality. Recently, the deregulation of APH and Canadian durum has been undertaken as a trial for wider deregulation. Deregulation is likely to result in significant change. There is a concern for Australian wheat as there has been a decrease in purchases of APH since the deregulation trial.

Japan also produces and exports wheat flour. Flour millers are allowed to import ‘free’ wheat outside the MAFF simultaneous-buy-sell system as long as they export an equivalent amount of wheat flour. Millers take advantage of this since it gives them an opportunity to import at world prices which are considerably less than the Agency resale price.

**Flour Mills**

Japanese millers have traditionally used APH from Australia to produce flour for ramen noodle production. However, in recent years, millers have been forced to use United States DNS wheat as supply is seen as more reliable. Thus, there has been increasing substitution of DNS when APH has been in short supply and millers are reluctant to return as this disrupts the continuity of supply to customers. This has resulted in reduced use of APH. The market continues to recognise the superior quality of APH for ramen production but has made the decision to back consistent supply against the best quality.

ASWN wheat is considered the best available wheat for the production of udon noodles. The specific starch type, flour colour and colour stability are all recognised as critical characteristics. The Japanese industry has been exploring the use of higher levels of domestic wheat to replace ASWN with the objective of more consistent supply at lower cost. It is also considered that products grown in Japan are safer than imported food products; however, attitudes may have changed following the tsunami.
CONSUMER TRENDS

Baked goods, largely bread, account for the largest use of flour in Japan and this is followed by noodles (Figure A.9). The majority of bread is supplied as white packaged bread produced in factories.

![Japanese Flour Use](Figure A.9 Flour use in Japan, 2010)

Instant noodles represent 60 per cent of the total retail value of noodle sales in 2010 (Euromonitor 2010).

Baked goods saw only a slight volume growth in 2010. After the contraction in 2008 resulting from the economic crisis, 2009 saw consumers shift to eating at home to save costs, resulting in a recovery in volume of sales. In 2010, this was further supported by lower prices of baked goods.

Overall, the market is stable and conservative and there is no expectation of any major food trends that would impact on the purchasing of wheat. It is expected that a move to more whole grain products will play a significant role in the future.

REFERENCES


Market Profile: Malaysia

<table>
<thead>
<tr>
<th>Highlight</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia dominates the supply of wheat to Malaysia.</td>
</tr>
<tr>
<td>There is a mix of bulk and container trade.</td>
</tr>
<tr>
<td>Malaysia has a highly competitive flour milling industry with considerable price pressure.</td>
</tr>
<tr>
<td>The majority of flour is used for traditional Asian food products.</td>
</tr>
<tr>
<td>Australian wheat is the preferred wheat type for the production of traditional Asian foods due to advantages in flour colour, noodle colour stability and product texture.</td>
</tr>
</tbody>
</table>

**Production, Consumption and Trade**

Per capita consumption of wheat in Malaysia is among the highest levels within the South East Asian nations and in 2008/2009 reached 45.7 kg/person. Levels of imports of wheat have been reasonably stable at 1.2 to 1.3 million tonnes per year.

<table>
<thead>
<tr>
<th>Year</th>
<th>2005/06</th>
<th>2006/07</th>
<th>2007/08</th>
<th>2008/09</th>
<th>2009/10</th>
</tr>
</thead>
<tbody>
<tr>
<td>Production</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Imports (wheat, flour &amp; products)</td>
<td>1,216</td>
<td>1,202</td>
<td>1,331</td>
<td>1,250</td>
<td>1,303</td>
</tr>
<tr>
<td>Feed use</td>
<td>50</td>
<td>50</td>
<td>60</td>
<td>70</td>
<td>40</td>
</tr>
<tr>
<td>Food, seed &amp; industrial use</td>
<td>1,100</td>
<td>1,100</td>
<td>1,125</td>
<td>1,175</td>
<td>1,150</td>
</tr>
<tr>
<td>Total use</td>
<td>1,150</td>
<td>1,150</td>
<td>1,185</td>
<td>1,245</td>
<td>1,190</td>
</tr>
<tr>
<td>Total per capita food use (kg/person)</td>
<td>42.4</td>
<td>41.6</td>
<td>41.8</td>
<td>42.9</td>
<td>41.3</td>
</tr>
</tbody>
</table>

Source: USDA, PSD Online and U.S. Census Bureau, 2011.

Australia holds the dominant share of Malaysian imports with imports increasing to 685,000 tonnes in 2009 and an average market share of 69 per cent. Canada continually challenges Australia with the second largest market share. Australia is Malaysia’s largest supplier of wheat flour. Australian wheat flour supply has grown to reach approximately 102,000 tonnes in 2009. Singapore is also a large supplier of wheat flour to Malaysia. This is driven by a convenience of location and Singapore having a large milling capacity.

<table>
<thead>
<tr>
<th>Country</th>
<th>Wheat (Tonnes)</th>
<th>Wheat Flour (Tonnes)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia</td>
<td>684,893</td>
<td>101,580</td>
</tr>
<tr>
<td>Canada</td>
<td>148,020</td>
<td>11,271</td>
</tr>
<tr>
<td>United States</td>
<td>104,992</td>
<td>10,350</td>
</tr>
<tr>
<td>Ukraine</td>
<td>44,616</td>
<td>8,394</td>
</tr>
<tr>
<td>Other</td>
<td>12,585</td>
<td>32,068</td>
</tr>
<tr>
<td>Total</td>
<td>995,106</td>
<td>163,663</td>
</tr>
</tbody>
</table>

Source: UN Comtrade, 2010.
FLOUR MILLS AND BAKERIES

There is a small number of milling companies operating in Malaysia.

- Interflour, Federal and United are the biggest of the companies.
- A number of smaller mills also operate.
- The mills buy a mixture of bulk and container

![Malaysian Wheat Imports (five year average) 2005 to 2009](image)

Source: UN Comtrade, accessed 2011.

There are two large bakery companies, High Five and Gardenia, with Federal Flour Mills about to open its own large bakery. Australian wheat is extremely well suited to the production of Asian foods, including noodles. Millers value the properties of Australian wheat as being clean, white and dry. In recent years some mills have experienced problems with the consistency and quality of wheat in containers from Australia.

CONSUMER TRENDS

General purpose flour is designed for home use and represents a significant portion of the market in Malaysia. General purpose flour is subsidised and has its price controlled and as a result some product finds its way into the baking trade. Market growth for bakery products has also been stimulated by the need for increased convenience. Growth in baked goods is also supported by a growing ‘Western influence’ with many consumers demanding new types of breads and cakes that are available in Western countries.

Noodles are the second largest flour market with a share of 26 per cent in 2010. Noodles are still considered a staple and essential food in Malaysia. With a large range of plain and instant noodles available, short preparation time and easy cooking methods, this means that noodles are the preferred choice for the home cooked meals in Malaysia.

Biscuit manufacturers have started selling in individual packaging to provide greater convenience and this has increased accessibility and thus consumption. The launch of healthier products in line with a more health conscious population has also allowed the biscuit sector to maintain its share of the baked goods market.
What the World Wants from Australian Wheat

Malaysian Flour Use

(percentage share)

2010

- Home Use: 35%
- Instant Noodles: 14%
- Wet & Dry Noodles: 12%
- Baking: 30%
- Other Traditional Products: 9%
- Other Traditional Products: 9%


Figure A.1: Flour use in Malaysia, 2010

References

Market Profile: Saudi Arabia

<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP real growth</td>
<td>3.4% (2010)</td>
</tr>
<tr>
<td>GDP per capita</td>
<td>USD 16,641 (2010)</td>
</tr>
</tbody>
</table>

**Highlights**
- Saudi Arabia was self-sufficient in wheat supply from the early 1980s until 2008.
- A government policy has been introduced to stop domestic wheat production and replace this with imported wheat. This will effectively create a new wheat market of approximately three million tonnes.
- The Saudi wheat was hard grained, high protein and had strong dough characteristics. The food manufacturing market has adapted to this style of wheat even for biscuit manufacture.
- The flour milling industry will be privatised; however, wheat purchasing will be controlled by the government.
- Australia, along with other countries, has been identified as a preferred wheat supplier.
- Flatbreads dominate the bread market.

**Production, Consumption and Trade**

In 2008, the Saudi Arabian Ministry of Agriculture called for a 12.5 per cent annual reduction in local wheat production over an eight year period (USDA 2010). This is reflected in a significant fall in domestic production (Table A.11). The goal is to cease local wheat production by 2016. Until then, Saudi Arabia will offset the reduction in local wheat production by importing a similar percentage from the international wheat market. The government will also maintain the guaranteed purchase price for locally grown wheat at $266.67 per tonne until 2016 (USDA, 2010). The main reason for change in the local wheat production policy was concerns over the falling ground water levels in grain producing regions.

**Table A.11** Wheat production, imports, consumption and use in Saudi Arabia, 2005/06-2009/10 (000 tonnes)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Production</td>
<td>2,648</td>
<td>2,630</td>
<td>2,556</td>
<td>1,720</td>
<td>1,000</td>
</tr>
<tr>
<td>Imports (wheat, flour &amp; products)</td>
<td>80</td>
<td>100</td>
<td>75</td>
<td>1,400</td>
<td>1,910</td>
</tr>
<tr>
<td>Food use</td>
<td>50</td>
<td>50</td>
<td>50</td>
<td>50</td>
<td>50</td>
</tr>
<tr>
<td>Food, seed &amp; industrial use</td>
<td>2,400</td>
<td>2,450</td>
<td>2,500</td>
<td>2,600</td>
<td>2,700</td>
</tr>
<tr>
<td>- Total use</td>
<td>2,450</td>
<td>2,500</td>
<td>2,550</td>
<td>2,650</td>
<td>2,750</td>
</tr>
<tr>
<td>- Total per capita food use (kg/person)</td>
<td>101.5</td>
<td>101.8</td>
<td>102.0</td>
<td>104.3</td>
<td>106.6</td>
</tr>
</tbody>
</table>

Source: USDA, PSD Online and U.S. Census Bureau, 2011.

The Grain Silos and Flour Mills Organization (GSFMO) has approved a number of international wheat exporters to supply wheat to Saudi Arabia from four key exporting countries: United States, Argentina, European Union and Australia. Russia and other Black Sea suppliers were not included on the approved country of origin list due to reported inferior wheat quality.
### Table A.12: Saudi Arabian Wheat and Wheat Flour Imports by Country, 2009 (Tonnes)

<table>
<thead>
<tr>
<th>Wheat</th>
<th>Wheat Flour</th>
</tr>
</thead>
<tbody>
<tr>
<td>Canada</td>
<td>1,027,080</td>
</tr>
<tr>
<td>Latvia</td>
<td>115,765</td>
</tr>
<tr>
<td>Lithuania</td>
<td>66,500</td>
</tr>
<tr>
<td>Netherlands</td>
<td>55,667</td>
</tr>
<tr>
<td>Czech Rep.</td>
<td>25,890</td>
</tr>
<tr>
<td>Other</td>
<td>10,000</td>
</tr>
<tr>
<td>Total</td>
<td>1,300,922</td>
</tr>
<tr>
<td>Australian share (%)</td>
<td>-</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Wheat</th>
<th>Wheat Flour</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kuwait</td>
<td>29,606</td>
</tr>
<tr>
<td>Ukraine</td>
<td>26,737</td>
</tr>
<tr>
<td>Cyprus</td>
<td>641</td>
</tr>
<tr>
<td>Bahrain</td>
<td>-</td>
</tr>
<tr>
<td>Other</td>
<td>73,806</td>
</tr>
<tr>
<td>Total</td>
<td>130,790</td>
</tr>
<tr>
<td>Australian share (%)</td>
<td>-</td>
</tr>
</tbody>
</table>

Source: UN Comtrade, 2010.

### Figure A.13: Saudi Arabian imports of wheat by country, 2005-2009 (tonnes)

### Figure A.14: Saudi Arabian imports of wheat flour by country, 2005-2009 (tonnes)

**Flour Mills**

The GSFMO is responsible for milling wheat and marketing wheat flour and bran. A process is in place to privatise the flour milling industry.

Saudi Arabia has nine wheat mills with a milling capacity reported as 10,980 tonnes per day with the largest mill in Riyadh able to mill up to 2,550 tonnes per day. The total storage capacity for wheat is about 2.5 million tonnes with plans to expand this to 3.5 million tonnes. Saudi Arabia struggles to keep pace with flour supply especially during the hajj when there is an influx of over one million pilgrims.
C O N S U M E R T R E N D S

Saudi Arabia, for a considerable period of time, has provided a subsidy of 75 per cent of the cost of flour sold to consumers as a means of keeping consumer prices low (Dow Jones, 2011).

Flour use in Saudi Arabia is dominated by the baked goods industry. Flatbreads account for the major portion of consumption and these are typically produced in small manual bakeries. However, a wide range of baked products is available including sliced sandwich bread and hamburger buns.

All other areas of flour use are significantly smaller than the baked goods industry. However, all flour-based goods industries have experienced an increase in demand. The increase in consumption of biscuits is largely due to a growing young population coupled with a rise in income. Pasta has received a larger demand as Western lifestyle influences continue to enter the market. Instant noodles have experienced increased demand due to their ease of preparation and are seen as a relatively healthy choice.

R E F E R E N C E S


Market Profile: South Korea

Population | 48.9 million (2010)
GDP real growth rate | 6.1% (2010)
GDP per capita | USD 20,165 (2010)

HIGHLIGHTS
- In the 1990s South Korea became an extremely consistent market for approximately one million tonnes of Australian wheat.
- In the past five years exports of Australian noodle wheat to Korea have been declining over concern for quality and quantity of ASWN wheat from Western Australia.
- Noodles represent the largest market segment for wheat based foods and Koreans have the largest per capita consumption of instant noodles in the world.

PRODUCTION, CONSUMPTION AND TRADE
South Korea imports roughly 60 per cent milling wheat and 40 per cent feed wheat from several suppliers. South Korea imports milling wheat for snacks, cakes, bread and noodles as there is limited demand for wheat flour made from locally grown wheat. Australia and the Ukraine are the main competitors for the United States in the milling wheat market.

Korean wheat consumption has risen to reach 4 million tonnes in 2010. Consumption for the use of food, seed and industrial use has remained relatively stable with the recent increase coming from the consumption of wheat used for feed since 2007/08.

|------|-----------|-----------|-----------|-----------|-----------|-----------
| Production | 13 | 8 | 6 | 8 | 10 | 26
| Imports (wheat, flour & products) | 3,591 | 3,884 | 3,439 | 3,092 | 3,371 | 4,470
| Feed use | 1,100 | 1,500 | 1,000 | 700 | 1,000 | 1,700
| Food, seed & industrial use | 2,400 | 2,400 | 2,300 | 2,300 | 2,300 | 2,300
| Total use | 3,500 | 3,900 | 3,300 | 3,000 | 3,300 | 4,000
| Total per capita food use (kg/person) | 50.2 | 50.0 | 47.8 | 47.7 | 47.5 | 47.4

Source: USDA, PSD Online and U.S. Census Bureau, 2011.

<table>
<thead>
<tr>
<th>WHEAT</th>
<th>2009 (TONNES)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ukraine</td>
<td>1,761,247</td>
</tr>
<tr>
<td>United States</td>
<td>1,057,312</td>
</tr>
<tr>
<td>Australia</td>
<td>777,176</td>
</tr>
<tr>
<td>Canada</td>
<td>135,679</td>
</tr>
<tr>
<td>Other</td>
<td>73,663</td>
</tr>
<tr>
<td>− Total</td>
<td>3,805,076</td>
</tr>
</tbody>
</table>
| − Australian share (%) | 20.4

| WHEAT FLOUR | |
|-------------|
| Canada | 29,813       |
| Turkey | 14,673       |
| Indonesia | 5,961      |
| Singapore | 3,616      |
| Australia | 1,923    |
| Other | 16,829       |
| − Total | 72,816       |
| − Australian share (%) | 2.6

Source: UN Comtrade, 2010.
Flour Mills

There are eight milling companies in South Korea operating a total of 11 flour mills. The three largest flour mills use more than 50 per cent of the milling wheat.

The mills specified that white wheat for noodles was desirable and consider noodle colour as well as texture to be extremely important. It is seen that the advantages of Australian wheat include its high starch viscosity which provides good noodle texture. The creamy colour of wheat flour is preferred because ultra white flour is thought to be unhealthy. The milling performance of Australian wheat is thought to be similar to United States wheat.
C O N S U M E R  T R E N D S

Noodles are the largest wheat based product in South Korea. Slow economic growth means that more Koreans are eating at home. With noodles considered a convenient and cheap option the sector has experienced a healthy growth in the past couple of years. Both instant/cup noodles and chilled noodles have seen high levels of consumption. South Korea has the highest per capita consumption of instant noodles in the world.

![Flour Use in South Korea, 2010](image)

The health and well-being trend among consumers has become one of the most significant factors in bread manufacturing. These consumer patterns are seen in more frequent purchases of premium products, and in consumer demand for bread products that benefit health. There has also been an increase in the consumption of artisan style breads to replace consumption of packaged bread. The artisan style bread is typically produced as frozen dough for bake off at the point of sale.

Healthy biscuits have been competitively introduced into the market over the past couple of years. Due to the well-being trend, Korean parents are avoiding traditional children’s breakfast cereals with high sugar and chocolate content. Pasta has seen increased consumption with more Koreans consuming pasta in the home.

R E F E R E N C E S

Introducing

Australian Wheat
GrainGrowers has developed a generic Australian wheat brand as a key deliverable of the *What the World Wants from Australian Wheat* project, with its elements crafted in response to the recommendations set out in the Executive Summary of the *What The World Wants From Australian Wheat Stakeholders Report 2011* (see page 4). The Australian wheat brand will provide a national umbrella under which international promotion of Australian wheat can occur to build a consistent message around wheat in our key international markets.

As part of a broader and longer term communications plan, the brand will be used to promote the ongoing development and improvement of Australia's wheat grades, provide a mechanism to deal with market-specific issues in a consistent manner and provide technical market information to our key customers on the production and quality of Australian wheat throughout the growing and harvest windows.

Through this, the brand will build confidence in, and a better understanding of, Australian wheat and its uses with existing and potential buyers and key markets, and position Australian wheat as the best and safest in the international marketplace, driving an increase in Australia’s overall value share.

**PROCESS**

The brand was developed in response to the recommendations set out in the Executive Summary of the *What The World Wants From Australian Wheat Stakeholders Report 2011* and through preliminary and ongoing workshops and consultation with industry. Initial brand concepts and executions were then presented for review and discussion with key local stakeholders as well as clients in two key markets, Indonesia and Singapore.
**BRAND GOALS**

Key brand goals identified include:

- 80% of Australian wheat is in the top 20% of world value (increase value share and in so doing increase the Australian grain producers returns)
- The brand is recognised within its key markets
- All millers across Asia, Pacific and the Middle East region want Australian wheat
- Every exporter using the brand
- Users recognise the brand and that it becomes a trustmark
- Implementation of export standards

**BRAND TARGETS**

- Producers
- Exporters
- Buyers
- Users

**KEY BRAND MARKETS**

- Australia
- China
- Egypt
- India
- Indonesia
- Iran
- Italy
- Japan
- Korea
- Kuwait
- Malaysia
- New Zealand
- Oman
- Philippines
- Saudi Arabia
- Singapore
- Sudan
- Taiwan
- Thailand
- UAE
- Vietnam
- Yemen

**BRAND BENEFITS**

The following benefits of Australian Wheat were identified as being key messages to communicate to these markets:

- Product quality and desirability (white grained, low moisture, flour colour, colour stability, noodle texture)
- Fit for purpose (especially noodle usage)
- Proximity (including logistics and value benefits)
- Knowledge, technical insight, expertise and capability
- Export focussed
- Quality
- Certainty
- Proactive solutions
- Directness and honesty (gives buyers opportunity to negate negatives from time and cost P.O.V.)
- ‘Doctor wheat’

**DIFFERENTIATING AUSTRALIAN WHEAT FROM ITS COMPETITORS**

The following key concepts were identified as being key to capture in the execution of the branding and to differentiate Australian Wheat from its competitors:

- authentic / Australian
- direct / upfront / dependable / honest / no-nonsense
- technically sophisticated / intelligent / knowledgable
- thorough
- respectful (of its clients, markets and their needs)
Both Industry and market consultation emphasised the necessity to leverage the extremely strong existing market knowledge and understanding of Australian wheat grades. As such, it is vital that the brand in execution includes strong representation of these grades and positions itself as an umbrella brand which encompasses them.

THE DIFFERENT NEEDS OF DIFFERENT MARKETS
As identified through the Stakeholders Report 2011, the different markets in which Australian Wheat is sold have many varied uses and supply requirements, issues and priorities. To address and target these market-specific needs, the brand has been developed to allow for versatile secondary messaging. This allows for these specific needs to be addressed without creating contradictions in the look and feel of materials, or the messages they convey.
AVAILABILITY TO INDUSTRY
The brand will be made available to industry subject to their agreement to criteria of usage to ensure that the brand is represented consistently and professionally in the marketplace in materials that reinforce the key messages and benefits of Australian Wheat, as identified through the brand development process.

EXAMPLES OF USAGE