

Is Australia producing the most profitable quality of wheat?

GrainGrowers is a grain farmer representative organisation with 17,000 members across Australia. Our goal is an efficient, sustainable and profitable grain production sector that benefits all Australian grain farmers and the wider grains industry.

GrainGrowers has commissioned a research project titled **Quality of Australian wheat: Is Australia producing the most profitable quality of wheat?** Our aim is to assess whether Australia produces the most profitable quality of wheat, and what will drive quality in the future. The project will bring together information and views from across the grains value chain that will allow for an objective and balanced assessment.

Why are we undertaking this project?

Australia has a long-standing reputation of producing high quality wheat tailored to end-user needs. However, in the last decade there have been mixed views regarding the performance of Australia's wheat quality.

In order to participate effectively in the wheat quality debate, GrainGrowers must assess the quality trends in the Australian wheat crop, the drivers of these trends and the impact on customers, growers and the supply chain.

What are the objectives of the project?

The project will address the following questions:

1. Is Australia producing a quality of wheat that maximises grower profitability and value to the industry?
2. Does Australian wheat quality meet customer needs?
3. Do opinions of what quality is differ along the supply chain?
4. How has the shift in export destination affected the quality requirements for Australian wheat?
5. How have changes in the domestic market affected the quality requirements for Australian wheat?
6. Are effective market signals delivered through the supply chain to growers and grains RDE organisations?

Who is leading the project?

GrainGrowers has engaged consultant Dr Richard Williams (groIQ) to deliver an unbiased and independent report. The project will be delivered in late 2018.



INITIAL OBSERVATIONS

Is there a single quality definition?

In short, no. Various wheat quality descriptions exist along the supply chain. What's important to a consumer may differ from a grower and differ again from a trader. Different consumers may also have differing quality requirements. For instance, an Indonesian flour mill will have different quality requirements to a Japanese noodle manufacturer who again will have different requirements to a

southern Queensland beef feedlot.

Different consumers value various quality traits differently. This valuation directly affects price along the supply chain, and influences the type and quality of wheat produced by Australian growers.

Interpretations of "what is wheat quality?" is complicated by the vast number of uses of Australian wheat. In Australia alone, wheat is milled for human consumption, used as animal feed, and/or used as an ethanol feedstock.

Some, but certainly not all, of the quality attributes valued by participants along the wheat supply chain include:

- Chemical residue status
- Energy content
- End product functionality
- Milling performance and flour yield
- Protein
- Sustainability and traceability

How to get involved

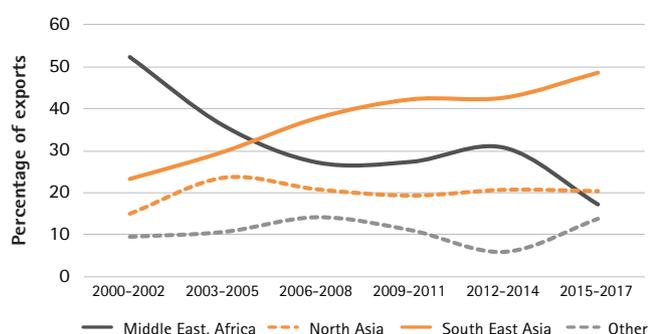
We encourage your support in bringing together an industry-supported report on the profitability of Australian wheat quality. The contribution from participants across the Australian grain value chain is critical in delivering this project. If you have insights or information that can be used in the project's review of Australian wheat quality please contact either GrainGrowers Trade and Economics Manager or the Lead Researcher for the Project.

- **Dr Richard Williams, groIQ**
E richard@groiq.com P +61 438 927 868
- **Luke Mathews, GrainGrowers**
E luke.mathews@graingrowers.com.au P +61 2 9286 2000

The diversity of end-use expands significantly when considering the number of countries buying Australian wheat and their potential uses. Each country, and the assorted end-users within each country, may have their own unique quality requirements, and in turn will assign a different value to those quality attributes.

The evolving destination of Australian exports over the past two decades has influenced the quality requirements of Australian wheat, and how various quality traits are valued. In the early 2000s over half of Australian wheat exports were directed to the Middle East and Africa region. By contrast, in the most recent period Middle East and Africa accounted for less than 17% of wheat exports, with half our exports now directed to South East Asia and a further 20% to North Asia.

Figure 1. Australian wheat exports by destination



Source: ABARES and ABS

Quality, classification and standards

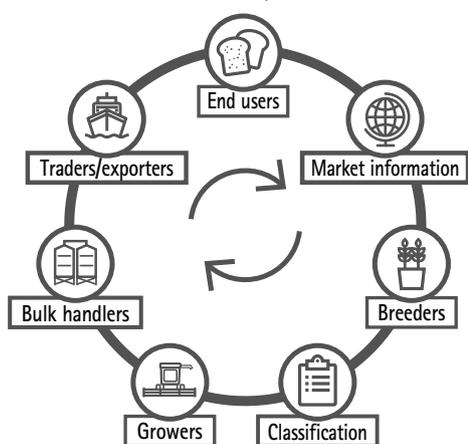
The Australian wheat industry utilises a market driven classification and grading system. This system aims to connect customer quality requirements with RDE breeding decisions, varietal classification, grading and production decisions. This continuous feedback loop is depicted in Figure 2.

The grade of wheat is specified by the GTA Standards, which describes qualities and characteristics of various grades of wheat with reference to common characteristics, such as protein, moisture or test weight.

Australian wheat growers are paid according to the grade of wheat delivered to the receival site. Therefore, for Australia to produce the most profitable quality of wheat, the classification and grading system must clearly represent customer quality requirements. The value attributed to the various quality attributes must be efficiently transferred throughout the supply chain from customers to traders to growers and RDE organisations.

Figure 2. Grain industry continuous feedback loop

Adapted from: GRDC, GroundCover, Issue 130



What is the profitability equation?

The GRDC has defined four elements in the equation for enduring profitability: yield, price, cost and risk.

$$\text{Profit} = [\text{Yield} \times \text{Price} - \text{Costs}] \times \text{Risk}$$

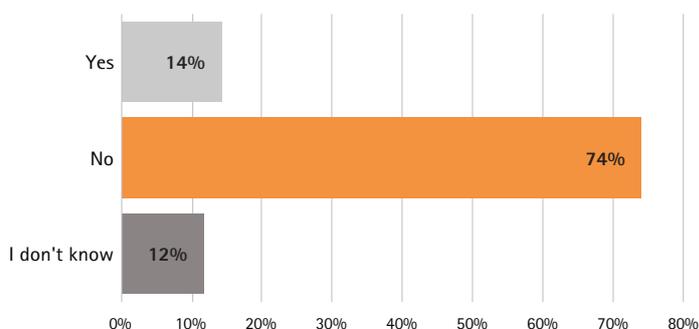
If quality requirements are properly valued by customers, and the value, in the form of price, is effectively transferred through the supply chain to growers, then growers who maximise profit according to the equation above will inherently be producing the most profitable quality of wheat.

What do growers say about quality?

GrainGrowers and groIQ recently surveyed more than 300 Australian wheat farmers, asking them about their views on the quality of Australian wheat. Some key insights were:

- 50% of growers say end product functionality is the most important quality attribute, compared to only 10% of growers who say protein is the most important.
- When asked to think about profitability, only 24% of growers say end product functionality is the most important quality attribute in driving their profitability. And 21% of growers say protein is the most important quality driver of profitability.
- Nearly 100% of growers say yield is of high importance to their wheat enterprise profitability. In contrast, only 63% say quality is of high importance to their wheat enterprise profitability.
- 74% of growers believe buyers do not adequately pay for wheat quality.

Figure 3. Do you feel that buyers are paying adequately for wheat quality?



Source: GrainGrowers member survey, July 2018

What's next?

The Lead Researcher for the project is now analysing why growers have the above views on quality, and how these views compare with others along the wheat value chain.

We look forward to your contribution to this project and exploring whether Australia does indeed produce a quality of wheat that maximises grower profitability and maximises value for the broader Australian grains industry.