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### Development of Australia's Foreign Policy White Paper

Co-operative Bulk Handling Limited ("CBH") notes the Australian Government's recent announcement to develop a foreign policy White Paper as a comprehensive framework to guide the nation's international engagement over the next five to ten years.

In line with the Foreign Policy White Paper Taskforce's terms of reference, CBH is pleased to make a submission addressing those issues and questions relevant to our business and the broader Australian grain industry. Our contribution focusses on matters relating to CBH's global grain marketing and trading experience and how this might be supported into the future by Australian Government foreign policy.

To this end and in the context of the terms of reference our submission focuses on:

- *Issue 02 - "Australia has foreign policy interests that span the globe"; and*
- *Issue 04 - "Australia needs to be ambitious in terms of grasping economic opportunities."*

### Background - CBH

CBH is a unique organisation with a history almost as long as the grain industry it serves. The co-operative's commitment to maintaining a partnership with its Western Australian grain grower members has helped build an industry that has been the backbone of the State's rural economy since the beginning of the bulk handling system 80 years ago.

This partnership has also been the basis of CBH's strength and success.

CBH has constantly innovated and grown with operations extending along the value chain from grain storage, handling and transport to marketing, shipping and processing. Now Australia's biggest co-operative and a leader of the nation's grain industry, CBH is controlled by 4,200 grain growers.

CBH is Western Australia's largest exporter of wheat, barley, canola and lupins, acquiring and exporting around 50 per cent of all grain produced to more than 30 export destinations and over 200 customers globally.

In a typical year, Deloitte Access Economics calculated that CBH and its grower members contribute almost \$3 billion in gross value-add to the Western Australian economy.

At the peak of harvest CBH employs around 2,700 permanent and casual personnel. These employees are located across the co-operative's 10 regional offices, 195 receival site locations, 4 ports, representative offices in Adelaide, Hong Kong, Japan, Russia and a head office located in West Perth.

### **Responding to the Terms of Reference - Key issues and questions**

CBH and the growers of Western Australia are aware of the many future challenges to grow and market grain profitably. Despite CBH's efforts to provide one of the lowest cost export supply chains in the world, long term trends in inputs, yield, pricing and new competitor origins are having an increasing impact on farm profitability and sustainability throughout Western Australia.

There have been many reports of the 'Asian Century' bringing new prosperity to the region and creating unparalleled demand for Australia's raw materials and food. While this is exciting and reassuring sentiment, it is by no means certain that Australian grain growers will benefit from the rise of Asia and its middle class. Indeed, such an increase in demand and prices has arguably served to stimulate production from other sources which are often advantaged by lower input costs, higher yields and new investment in supply chains to the market.

The Australian agriculture sector is challenged to compete with grain produced on a global scale, some of which is supported by foreign government subsidies. Similarly, our growers are contending with emerging producers from regions operating from a very low cost base with essentially no regulatory requirements.

The efforts therefore of the Australian Government to put in place the right trade and investment policy settings, within the context of its foreign relations, is necessary to help drive Australia's future growth.

#### ***Issue: 02 - "Australia has foreign policy interests that span the globe"***

- *Which countries will matter most to Australia over the next 10 years? Why and in what ways? How should we deepen and diversify key relationships?*

Australia's recent prosperity and the success of agricultural exports has been developed on the back of trading relationships with major nations such as Japan and Korea and more recently China. Australia must maintain these relationships but also seek opportunities to diversify and enhance Australia's interests, avoiding dependency on any single destination. Too much reliance on a nation or handful of nations for Australia's export income not only exposes the nation to greater risk if those markets change direction or are disrupted, but could also cause Australia to miss valuable opportunities elsewhere.

CBH is already committed to a diversified marketing strategy that places strong emphasis on South East Asia with an additional focus on the Middle East and Africa. The middle class in South East Asia will total 400 million<sup>1</sup> by the end of this decade, with Indonesia alone accounting for more than a quarter of that number at 141 million<sup>2</sup>. This demographic will clearly demand food of a known origin and quality.

To broaden Australia's relationships over the next decade with these important markets, Australia will need to develop strong government-to-government links and lower the barriers to entry. These barriers are present in the form of tariffs, regulations and other non-tariff barriers (such as phytosanitary restrictions and quota), and can exist even alongside trade agreements. For example:

- Iran is a substantial wheat producer in its own right but often imports as much as 6.8 million tonnes annually, depending on domestic production. Historically this market has had a strong preference for Australian wheat.

<sup>1</sup> Source – Nielsen Report 'ASEAN 2015: Seeing Around the Corner in a New Asian Landscape'.

<sup>2</sup> Source – Boston Consulting Group



However, Australian companies selling grain into Iran bear marketing restrictions that our competitors do not. Australian exporters are obliged to market via third parties due to a requirement for regulatory compliance placed on Australian trading companies (stemming from international trade sanction rules). Consequently, the majority of Australian wheat sales into Iran are made by United States and European Union-based commodity traders operating under less restrictive access conditions. For example, US grain traders are able to sell into Iran via owned subsidiaries in European localities. Being required to supply the premium Iranian market in this fashion, instead of direct, does not realise the optimal value return for Australian producers.

- China is an important market for Australian grain, as the destination for just under one-third of our nation's grain exports. While Australia has a trade agreement in place with China, there remain some impediments by way of phytosanitary constraints. Clear import rules and consistent application are essential for the grain industry to trade with confidence.

Stronger government-to-government links can build the level of bilateral trust required to redress these and other trade restrictions, and establish protocols which facilitate rather than hamper trade. Equally, lower barriers to entry could be achieved through domestic policy settings that facilitate and prioritise efficient supply chains to export, supported by foreign policy settings and diplomatic presence to build the above-mentioned government links. This would include maintaining and building on the very successful and ongoing working relationship CBH enjoys with the Department of Foreign Affairs and Trade's ("DFAT") Regional Trade offices and Embassies into the future.

- *Which global trends, such as developments in technology, environmental degradation and the role of non-state actors, are likely to affect Australia's security and prosperity? How should Australia respond?*

The ideal agricultural value chain is often described as one where growers and their international customers are inextricably linked to the extent that growers' planting and cropping decisions are informed directly by the demands of the market. However, the reality is often a little different; not least of which because grain growers will in the majority make planting decisions on the basis of agronomic factors and resulting gross margins (i.e. which grain type can deliver the highest yield for their particular geography).

As an organisation representing the commercial interests of the Western Australian grain growers, CBH is always seeking ways to create stronger, more economically valuable links between growers and their customers: the flour millers of Indonesia, the Chinese maltsters or the oil crushers of Japan who purchase their grain.

In a global trading environment which is increasingly dominated by large, multi-national traders who seek to occupy the commercial space between grain growers and their international grain processors, real value can be created for Australian producers (such as CBH's grower members) by maintaining a direct link; where growers can receive direct and transparent information around consumptive trends and quality requirements from flour millers or maltsters.

To this end, technology can play an important role in a direct relationship between growers and their end-user customers. This might be by way of portals or on-line trading platforms where processors and producers could engage directly on more niche parcels and requirements, without the commercial intervention of the large multi-nationals who consume such significant portions of trading value.

Following Australia's hosting of the G20 and B20, CBH has maintained its representation on the B20 Trade Task Force to promote the interest of free trade generally and the benefits for opening up agriculture and food supply chains. It is likely that the draft B20 Trade Task Force paper prepared for the G20 meeting in Berlin in May will advocate strongly for the development of 'digital trade'. While cybercrime and international tax issues can cause nations to have

concerns and regulate e-trade, there is a need to resist this temptation or to facilitate security measures but retain open and common protocols at the same time. E-trade should be facilitated by a strong policy framework that sees enhanced opportunities for direct, more efficient commercial relationships utilising technology and innovations rather than being suffocated by often unsubstantiated fears and concerns.

#### **Issue # 4 - Australia needs to be ambitious in terms of grasping economic opportunities**

- *What steps should be taken to maximise our trade and investment and expand commercial opportunities for Australian business? How can we ensure Australia is positioned to take advantage of opportunities in the global economy? What are the key risks to Australia's future prosperity and how should we respond?*

**Facilitating trade and investment opportunities through reduced barriers and diplomatic presence:** CBH has been a regular and vocal supporter of trade liberalisation on the basis that increased regulation invariably leads to increased costs, inefficiencies and market distortion that is ultimately borne by the producer (grain growers).

The Australian agriculture sector is ideally placed to provide food to key global export markets, in particular those throughout Asia and the Middle East. Support for example by way of an export policy framework that can "open up" channels to international markets for "trustworthy" Australian suppliers can give local producers a competitive advantage against other origins of agricultural supply, particularly those competing for market share based on the cheapest price rather than the high-quality, commercially reliable basis that Australia is often noted.

Australia's export regulations can be enhanced by Australian Government agencies continuing to develop and maintain a close and active understanding of Australia's key export markets. In recent years, CBH has received valuable Government assistance such as that recently demonstrated by the Department of Agriculture working with China to gain clarity on newly introduced wheat and barley protocols. The Department of Agriculture having a close understanding of that market and its prevailing commercial issues has been able to provide guidance and facilitate ongoing dialogue using its well-established connections into the overseeing authorities.

In addition to reduced barriers to trade in goods and services, Australia should also consider how it can negotiate lower barriers to foreign investment abroad. CBH has invested in a network of flour mills in South-East Asia, the proceeds of which are returned to its grower members in Western Australia. This model of Australian businesses investing in our region strengthens ties and delivers value back home, and it should be as important to Australian businesses as sourcing foreign investment into Australia.

With this in mind it should be an equal priority to clarify, open up and indeed perhaps match foreign investment rules so Australian companies have equal ability to invest in the destination market as they may to invest in Australia.

**Promotion of Australia as trustworthy and reliable:** Australia has long promoted a trading image of a 'clean and green' producer and exporter of goods, a brand which reflects the country's abundance of unpolluted, open spaces and the sound quarantine record its island geography supports.

As new export origins grow and compete with Australia in our region it is worthwhile to consider if this 'clean and green' tagline best captures all of Australia's competitive proposition. It is the combination of Australia's proximity to key markets, regular production of exportable surpluses, sound rule of law, low sovereign risk and strong quarantine protocols that makes it a highly trustworthy and reliable source of food for countries that have to import large quantities of calories every year to feed their nation.

These individual attributes need to be preserved and promoted as they are what truly sets the nation apart from key competing origins of Canada, South America and the Black Sea countries of Russia and Ukraine.

**To conclude**

**Government and industry** – The grower members of CBH have already benefitted from the close working relationship with government departments such as the Department of Foreign Affairs and Trade and the Department of Agriculture in resolving or improving specific non-tariff barriers, such as onerous or duplicate quarantine regulations. There are many instances where these have broad commercial impacts for Australian exporters but can only be resolved at a government-to-government level. CBH strongly supports this type of cooperation.

**Focus on the region to diversify opportunity** – South East Asia including major markets such as Indonesia and growth markets such as Vietnam, Thailand, Philippines and Myanmar should have a priority equal to that of trade with China.

**Foster e-trade** – The collective development of e-trade protocols could have a major impact on opening up trade to make it more trusted, seamless and cost effective. Given the challenges of WTO-style multilateral trade liberalisation, perhaps e trade could offer a fresh and unique solution to some of the trade facilitation issues currently faced by negotiators. Equally Australia could embrace this development with existing regional trading relationships already in place.

CBH is strongly supportive of multi and bilateral negotiations and the approach of this consultation to ensure joint government and business collaboration in the development of a White Paper, the resulting policies and ultimately preferential trading and investment relationship with our region. We are very grateful therefore to have the opportunity of engaging with government at this early stage of policy development.

While our submission to the White Paper Task Force has been framed as intentionally succinct, we would be very pleased to provide further input and detail regarding CBH's global trading activities that may be relevant to DFAT's policy deliberations. Rachel Cameron, our manager of Government and Industry Relations can be contacted by way of [REDACTED] should you require anything further.

Kind Regards,

**For: Co-operative Bulk Handling Limited**



**Dr Andrew Crane  
Chief Executive Officer**