



Submissions Report

Received from Western Australian Grain Industry in 2015, in response to

“Western Australia’s Noodle Wheat Industry: Current Status and Future Challenges”

Australian Export Grain Innovation Centre and Grain Industry Association of Western Australia Inc
Report, found at www.giwa.org.au/wheat-council

INTRODUCTION

- The Wheat Council of the Grain Industry Association of Western Australian has been monitoring the long term sustainability of the WA Noodle Wheat industry since 2010
- Ministry Food, Agriculture and Fisheries, Japan (MAFF) and the Japan Flour Millers Association (JFMA) have had a long and cordial association with the Western Australian grain industry since the early 1990s, originally with the WA Department of Food and Agriculture DAFWA, and more recently since 2010 with the Grain Industry Association of Western Australia (formed in 2009) and also since 2013 with the Australian Export Grain Innovation Centre (formed when DAFWA devolved its Western Australian grain testing and baking laboratories into a not-for-profit technical research entity with 50/50 ownership with the national Grains Research & Development Corporation)
- There have been regular technical exchanges and trade visits between Japan and Western Australia (sole international supplier of udon noodle wheat to Japan) in regards to noodle wheat for the past 20+ years, which has resulted in Japanese preference for approximately 800,000 – 900,000 tonnes annually of WA originated noodle wheat “ASW blend” (made of 60% ANW and 40% APW in a particular protein range), which accounts for approximately 15% of total annual Japanese food wheat demand
- In the 2000s Australian cereal breeding, including noodle wheat breeding became privatised (InterGrain the sole noodle wheat breeder was privatised in 2007)
- Plant breeders now gain revenue through farm production based on the breeders’ varieties (end-point royalties) and are mostly focusing on APW and AH varieties due to their large volumes of production
- Since the 2008 deregulation of the Australian wheat market, Australian grain growers and grain exporters have been well served by deregulation, with the exception of the noodle wheat segment where Japanese demand is constant and purchasing is government controlled through a least-cost General Tender system, versus fluctuating supply and a deregulated market at the Australian grower end where competing non-noodle hard wheat grain varieties have brought stronger yields and higher prices than noodle wheat varieties
- This has resulted in production and price volatility of noodle wheat to the Japanese and Korean markets

- Concern over the long term sustainability of the WA noodle wheat industry led GIWA and AEGIC to collaborate to produce a factual reference report on the Western Australian noodle wheat industry in 2015 “Western Australia’s Noodle Wheat Industry: Current Status and Future Challenges”
- AEGIC as the technical research organisation authored the report, and GIWA as the WA grain industry association led the industry consultation in respect of the report
- A call for submissions was made by GIWA to the WA grain industry in response to the report
- Nine submissions were received in the October – November period 2015, 4 of which were given approval for publication and are found below
- These submissions will be considered by the GIWA Wheat Council in February 2016, shared with the Western Australian grain industry and also with MAFF and JFMA Japan

KEY CONCLUSIONS FROM SUBMISSIONS

The GIWA Wheat Council concluded from submissions to the report “Western Australia’s Noodle Wheat Industry: Current Status and Future Challenges” that the differentiated noodle wheat segment for Korea and Japan is well supported.

Security of supply is a very high priority and the Council will continue working with industry to identify opportunities that support and enhance the production of noodle wheat in WA. At this stage intervention, in any form, is not considered by the Council to be necessary.

Two key themes from the submissions were that they:

- **Acknowledged the challenges in growing noodle varieties and the balance between risk and reward when compared with other options like APW and AH varieties. From a grower perspective, they are keen to assess the relative performance of new varieties such as Zen and Supreme and;**
- **Showed an understanding of the difficulties faced when a deregulated Australian market sells wheat to the regulated Japanese government buying agency MAFF.**

SUBMISSIONS VERBATIM

1. Dr Graham Crosbie, Principal Crosbie Grain Quality Consulting Formerly Principal Chemist and Manager, Grain Foods Research Department of Agriculture and Food Western Australia (DAFWA)

In your recent report, GIWA and AEGIC have highlighted issues that are important for the future of the noodle wheat industry. I have some additional views that may be of interest to the industry.

Udon noodle wheat has failed to realise its full potential in Western Australia, and this is clearly due to the inadequacy of the current marketing system. The system is a carryover from that which operated for many years under the (Australian Wheat Board’s) single desk. While the system worked reasonably well with the single desk, it is quite inappropriate and unfair today with many Australian marketers competing to win contracts.

My focus here is the Japanese market, rather than South Korea, which also has a requirement for wheat of this quality type. Whereas South Korea has a less restrictive wheat purchasing system, the system in Japan is now inhibiting development of the WA noodle wheat industry, to the disadvantage of wheat growers and all end-users.

Submissions in response to Western Australia’s Noodle Wheat Industry: Current Status and Future Challenges, 2015

In March 1989, as an officer of the Department of Agriculture, I called for the introduction of a segregation and separate pooling of noodle wheat. This was needed to concentrate the rapidly dwindling supplies of key varieties, to maintain an adequate proportion of these varieties in shipments and to protect the reputation of Western Australia as the supplier of the best wheat in the world for Japanese udon. It also aimed at returning to growers a price reflecting true market value for their wheat. This was also to give time for vital quality research to be carried out and to allow new, higher yielding varieties to be developed. The segregation was established in 1989/90 and separate pooling was finally agreed to by the AWB in 1992/93. The system worked well and premiums (to growers) of \$20 or more were often achieved during the 1990s, although excessive production of Calingiri, released in 1997, did lower the premium for this variety in the early 2000s.

The development of new, high quality noodle wheats for udon has resulted from collaborative quality research involving the Japanese milling industry and the Department of Agriculture and Food Western Australia for over 25 years. This has included a visiting experts program that commenced in 1990 and involved cereal chemists from the two major Japanese flour mills. In this program the Japanese experts trained chemists and technical staff at DAFWA (and more recently at AEGIC) in the laboratory preparation and assessment of udon. This has assisted greatly in assessing new varieties developed by DAFWA (and more recently InterGrain) such as Cadoux, Arrino, Calingiri, Fortune, Supreme and Zen. The collaboration extended to more basic research, to establish factors influencing noodle texture and appearance. Continuation of this close collaboration is important to Australia and Japan, but is dependent on the achievement of adequate premiums for the new varieties developed.

The inadequacy of the Japanese tender system was clearly flagged by a reduction in premiums soon after deregulation was introduced, and this has persisted to the present day. No longer did we have a single marketer, AWB, promoting the high quality of our wheat to achieve a fair price for growers, but instead we had Australian marketers competing against each other to win the tender. The contract is invariably awarded to the marketer with the cheapest wheat that meets the minimum quality specifications. Thus it is a system that aims for low price and tolerates mediocre quality, and is quite inconsistent with the original aims for the segregation.

While the shortcomings of the tender system have been apparent for many years, it has also been recognized that MAFF of Japan will have to be fully convinced of the need for change. However, the Australian Federal Government, which left it to the wheat industry to sort out any problems that arose from deregulation, had an opportunity to press for changes when involved in trade negotiations in 2014 with the Japanese government. What it could bring to the negotiating table was a well-reasoned case for a fairer system that would yield benefits for Western Australian growers, wheat breeders, and Japanese flour mills and noodle manufacturers. Although the trade agreement indicated potential opportunities for Australian Hard and APW wheat, no reference was made to the main wheat type we currently export to Japan - noodle wheat - which raises the question as to whether or not the parties to these trade negotiations had been adequately briefed and were aware that the noodle wheat sector of the industry was in crisis.

A fair marketing system would involve direct negotiations between buyers and sellers, with minimal involvement by governments. Despite the lack of attention to noodle wheat in the trade negotiations in 2014, government to government agreement appears essential to bring about the required changes. Next time they meet, both parties need to be well briefed.

There needs to be some discussion on what constitutes a fair premium. Unless this is sufficiently high the noodle wheat industry is at risk. In 1994, I suggested that the price for segregated noodle wheat from WA should be closer to that for Australian Prime Hard (APH) than ASW – and it did match APH

on a number of occasions. APH is the other main wheat type exported to Japan from Australia where it is highly regarded for the manufacture of ramen-style noodles. There is still a strong case today, on quality grounds, for ANW wheat to be closer in price to APH than APW. Although the quality requirements for udon-style noodles are different from ramen-style, they are no less exacting. Furthermore, there are alternative US and Canadian replacements for APH, but these countries have no replacements for ANW. The only alternative to ANW is heavily subsidized domestic Japanese wheat. While Japanese wheat breeders have set noodle wheat from Western Australia as their quality objective, and have achieved success in relation to noodle texture, domestic Japanese wheat lacks the noodle colour and colour stability of Western Australian noodle wheat.

The policy of blending ANW and APW also needs attention. Back in 1989/90, some 390,000 tonnes of prime noodle wheat was received (as ASWN, the equivalent of ANW). This was less than required for the Japanese market, and specially selected ASW wheat was carefully blended into this wheat to make up the required tonnage. This set a pattern for what is now the ANW/APW blend. But it is important to recognize that ANW provides the key quality requirements for udon, whereas APW is of lesser quality for this end-use. The target blend at this time is 60% ANW and 40% APW, but the quality of shipments would be improved if the blend was 80:20 in favour of ANW.

The need for a replacement to the present system with one involving direct negotiations between buyers and sellers has reached a critical stage. Higher premiums are needed to counter the impact of new, higher yielding APW and Australian Hard varieties, such as Mace and Sceptre, that will become dominant in the near future. Some growers may prefer the option for contracts to be negotiated before seeding, giving price surety and reduced risk of oversupply.

Noodle wheat definitely has a future in Western Australia, and we should be proud of the reputation we have achieved in the production of this wheat. We need to think beyond the present crisis and recognize the need for research to further improve quality, and to identify other potential noodle wheat markets.

2. Tress Walmsley **Chief Executive Officer, InterGrain**

The current report developed by AEGIC and GIWA is an excellent overview of the industry challenges that the (Australian) grains industry needs to consider.

Wheat is normally traded as a commodity product with minimal product differentiation. Udon noodle wheat is a rare example of a product that has unique quality traits that a specific market is willing to pay for. The WA industry has an opportunity to work together to capture this value. A simple solution is unlikely however this presents an opportunity for GIWA to demonstrate leadership in facilitating an important grains industry outcome.

InterGrain has a long term investment in noodle breeding and therefore has a vested interest in ensuring the future prosperity of the WA noodle industry. InterGrain regularly reviews its investment in the noodle wheat program and we will continue to maintain a specific noodle program whilst it remains commercially viable. A key driver for the viability of a breeding program is grower adoption of varieties (market share) that generate end point royalties. As such, we strongly support industry solutions that focus on the grower. Options that either reduce the risk of growing noodles or provide a premium will ultimately deliver benefit to the other stakeholders in the supply chain.

3. Western Australia Farmers' Federation (State member based farming organisation)

The production of noodle wheat varieties has declined significantly recently, as a direct result of higher yielding and more stable quality varieties.

Noodle wheat varieties have significantly more variable production than other varieties, with specific reference to the sprouting tolerance, protein levels, and yield stability.

If noodle grade isn't met, the grain is significantly downgraded to reflect the poor alternative use for noodle grain.

Price differentials between noodle wheat and other grades are not large enough to encourage growers to take on the production risk of noodle wheat.

Price for noodle wheat reflects the market value, and does indicate willingness for the market to pay for high quality Australian noodle wheat.

Noodle wheat is a niche product for a niche market. The current noodle markets are Japan and South Korea, with limited capacity to increase current market share. Issue with development of new markets for noodle wheat. Ensuring WA and Australia have access and a role in these developing markets (if any) is also essential.

Another issue is maintaining Australia's presence in the currently available markets, due to the increasing competition in export markets.

WAFarmers do believe there is a future for the noodle industry in WA, as there is a market for the product.

However the future is heavily dependent on the farmer's willingness to produce the grain, which is based on price and production certainty.

Currently price and the production variability don't reflect the risks to the farmer.

Saying that, WAFarmers would not support measures to artificially maintain the noodle wheat market, as market forces must apply to ensure its sustainability.

The price for noodle wheat needs to reflect the current market for the grain. However it should also reflect the limited markets and the high production risks.

Market forces are the only way to ensure the sustainability of the WA noodle wheat market. Japan and South Korea will continue to demand high quality noodle wheat.

Market officials need to work with the noodle wheat markets (Japan and South Korea) to ensure that they understand the issues associated with the current value of the grain, and how the value can be improved to reflect farm gate risk to farmers.

4. Stephanie & Barry Clarke Growers, Westview Farm, Bolgart

As growers of Noodle Wheat for the past 20 years we would like to contribute our ideas in regard to the Report regarding the viability of WA's and Australia's noodle wheat industry.

WA's ability to service the demand for Noodle Wheat to Japan and Korea needs to be preserved and promoted.

Australia's ability to supply APW and Hard wheats as a result of our existing Noodle relationship with Japan is extremely important and therefore we need to continue to support growers in the production of high yielding , high quality noodle varieties.

In order for growers to continue to grow noodle wheat there needs to be a better and consistent premium built into the price growers obtain on a regular basis . When there is very little premium at the commencement of the seeding season this affects growers decision to grow noodle wheat.

Continuation of breeding programs for new Noodle varieties that are both high yielding and of suitable quality to Japanese and Korean markets is paramount to the sustainability of WA's continuing Noodle market, eg Supreme and Zen varieties.

Government support in breeding programs and the promotion of our Noodle varieties to Japan and Korea is warranted to support growers rather than taxing the growers' price by end point royalties.

Growers' margins are slim due to increasing input costs as it is without additional costs coming out of our grain price which continually fluctuates. For noodle wheat there is minimal price certainty as a grower and this affects a growers' decision to take the risk with Noodle varieties if they are not any better yielding and don't guarantee a reasonable price premium eg \$20/tonne.

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