

20 May 2015

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Dear Tamara,

Re: GTA Trading Standards Review 2015/16

Thank you for the submission from AgForce Grains (AgForce) on the first call for submissions on the 2015/16 season Trading Standards (Standards). The Grain Trade Australia (GTA) Standards Committee (Committee) has recently met to discuss all submissions received from industry.

During those deliberations, the Committee noted the objections of AgForce to several of the proposed changes on a number of issues, mainly related to sorghum. Following the discussion GTA was asked to respond on a number of specific issues raised in your submission as outlined below.

1. Sorghum Standards

1.1 Market Demand

We note the figures cited in your response regarding the “large domestic market for sorghum in Queensland, in comparison to the export demand”. It is recognised that the domestic market has traditionally been the major user of sorghum, however this situation has changed in recent seasons, as can be seen from the following graph provided by GrainCorp at the Australian Grain Industry Conference in Hong Kong on 11 March 2015.

As can be seen in that graph, the export market is increasing in recent seasons, with the 2015/16 crop exports showing a further increase. These exports are in both containers and bulk with bulk providing the greater market share. By far the majority of this sorghum is supplied to China since 2013/14, with a corresponding drop in exports to Japan. The two main uses of sorghum in China are for Baijiu consumption and for stockfeed. It is recognised different quality requirements exist for these two major end-uses, as is the case for other markets sourcing sorghum. The growth in export market is beneficial to the industry as a whole, including growers.

The proposed SOR1 and SOR2 grades are not designated human consumption and/or feed grades. As with all Standards set by GTA, industry is free to implement those Standards for their own purposes. Given the two major uses of sorghum, the SOR1 and SOR2 grades have been developed taking into account the requirements of the industry and marketplace for both human consumption and stockfeed end-uses. While not specifically meeting the requirements of each of those markets, the proposed tolerances are a compromise for these two end-uses.

Should industry participants desire to supply grain of a different quality to their customers, then they are free to implement a tighter or looser standard than the proposed two grades. However the Committee understands that the proposed two grades should meet most requirements.

We note your comment that:

- “adequate detail that the target export market require changes to the standards and tightened specifications has not been provided, and therefore cannot be supported by AgForce Grains”; and

- “there is a market demand for the current standards of Australian sorghum and that we are meeting the needs of our key markets”.

It should be noted that during development of the proposed Standards based on feedback from major domestic users of sorghum, current grain quality contract requirements and grain currently being supplied to that market sector is similar to the specifications as outlined for SOR1 and SOR2 (noting the above regarding a compromise has been developed).

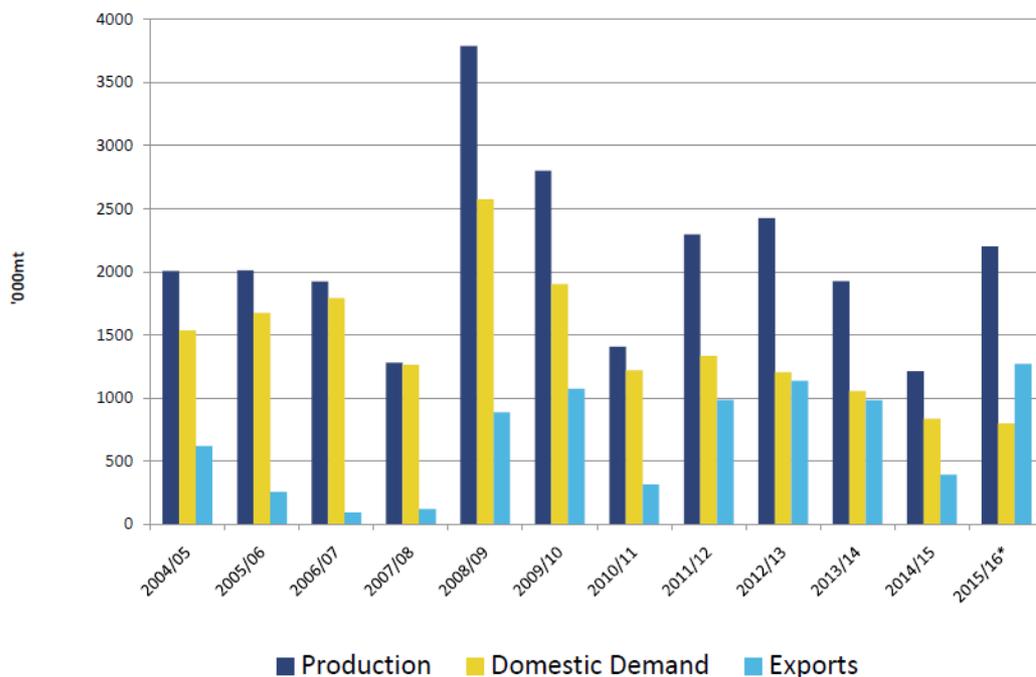
On this basis the stockfeed sector feedback has been positive in terms of:

- The proposed tolerances are expected to meet their grain quality requirements; and
- The existing GTA grades are not suitable to their needs in terms of quality requirements, nor do these grades reflect the quality of grain currently being supplied.

In terms of the export market, feedback has been received that a significant tightening of the proposed SOR1 standard is required in some quality parameters. Indeed an initial industry submission from this sector led to the initial review of the existing specifications and grades. As stated previously the Committee did not agree to that submission in its entirety given the potential impact on the production sector. A compromise was reached and the Committee considered the specifications agreed should meet the majority of market requirements.

While the China Baijiu market is arguably “not a niche market”, as noted in your submission there is the possibility for the trade to set specific segregations for this market. As noted above, the industry preference is to use existing (i.e. proposed) grades where possible in order to minimise segregation costs and provide maximum marketing flexibility to grain held in storage.

Australian Sorghum Supply & Demand



1.2 Grades

In addition to the above comments that also relate to Grades, it is recognised that in seasons where poor grain quality arises, grain outside of these specifications may be tendered for delivery.

However, in relation to Screenings, these instances have been relatively rare in recent seasons. It is important to note that in those seasons for example where high screenings have arisen due to drought conditions relatively little tonnage has been delivered into the main Storage and Handling system. Additionally relatively little tonnage was also received by the major users of stockfeed on the domestic market. Hence it appears industry has been able to successfully utilise that grain, despite the poor quality.

Additionally, the Committee would expect that additional regional grades to cater for these off-grade deliveries would be created as and where required, as per existing regional grades created for other commodities.

We note your comments relating to *“to imply the proposed changes are based on screening and delivery data is in fact only considering a small, premium section of the market”*. The Committee based its decision on the revised grades for all quality parameters, not just screenings, nor solely on screenings to the domestic stockfeed sector.

1.3 Total Admixture, Foreign Material, Screenings and Trash

We note the objections to the change to the tolerances for Foreign Material, Screenings and Trash. As outlined previously, the data of grain receipt and outturns to the domestic market indicate the changes are fully able to be achieved in the majority of seasons and instances.

It was highlighted during deliberations of the Committee that the human consumption and stockfeed industry would prefer a significantly tighter tolerance for screenings than the current 11% in SOR1. However as the tighter tolerance was considered “ambitious”, a compromise of 10% was agreed for SOR1, provided the level for SOR2 was also reduced from the existing No.3 grade (50%) as that level was not providing a clear market signal on the quality of grain required by the market.

Based on industry feedback the Committee has decided to not use the USDA screen for assessment of screenings and continue to use the existing 2.00mm screen.

In relation to Foreign Material the previous definition has been altered from “all non-sorghum seed material” to “all material not specified in the Standards”. The main content is expected to be Trash. While including the previous definition of Trash, the new definition is significantly looser than the prior definition for Foreign Material. The tolerance has been decreased to a level that has been readily achieved in both receipt and outturn of sorghum in recent seasons, based on the data analysed. Thus this new definition and tolerance reflects the quality of grain being supplied to the market.

We note the comments related to harvestability of the crop and impact on Foreign Material / Trash in the harvested sample. However we re-iterate that data analysed indicates the new tolerance should be able to be met on most occasions.

1.4 Defective Parameters

Total Defective

While the tolerance has been reduced for the SOR1 grade, the definition no longer includes Sprouted or Stained. Based on past data, the most common defective quality parameters expected to be delivered would be Insect Damaged (potentially post-harvest only) or Field Fungi. Should harvest conditions arise that create significant levels of Field Fungi, the current level of 3% would prevent receipt into SOR1.

Field Fungi at levels above 3% may also mean that other quality issues have arisen in the grain, such as Sprouted/Test Weight, that may also lead to issues with meeting the tolerances for SOR1.

Despite the above “potential ramifications”, it should be stressed that the tolerance for Total Defective has been set at a level as required by the market and supported by recent receipt/outturn data, as confirmed during deliberations of the Committee in developing the revised Standards.

Sprouted

The tolerance for SOR1 has been set at 3% to better meet the requirements of all markets using / potentially using that grade. The previous tolerance of 5% was not reflective of current domestic or

export market requirements. It should be noted that the proposed definition is a significant loosening to that which previously applied. This necessitated a reduction in the tolerance.

Field Fungi

The tolerance for Field Fungi has been reduced in SOR₁ to reflect the requirements of both the human consumption and stockfeed markets. This was agreed by the Committee on the basis that as Stained is not considered to have a negative influence on grain quality/end-use, it be removed but the current definition and tolerance for Field Fungi was not adequate.

Sectors of the stockfeed industry are most concerned with Field Fungi. In fact, a request was made for tighter levels if possible. The basis for that request was that if Field Fungi is present, the preference is not to utilise that grain on the domestic stockfeed market. That request was rejected on the basis of being impractical. While it is recognised Field Fungi can be an issue in deliveries, in recent years there has not been a major issue for supply of sorghum containing high levels to the domestic market.

The revised tolerance was agreed on the basis that the domestic market can and does implement monitoring programs to sample/test for mycotoxins potentially arising from Field Fungi grain and that this testing can mitigate any risk of the sorghum containing Field fungi above levels they consider a risk for feeding stock.

1.5 Sand and Soil

Varying limits apply depending on the end-use and / or market. For many countries a nil tolerance applies. As with many parameters in Standards, creating a nil tolerance would not be practical or achievable by the production sector. Hence a level is set that is considered readily achievable while not creating a significant risk to the marketing of that commodity.

An assumption is made that not all loads will be delivered with Sand/Soil or at the maximum level, thus with compositing / blending and movement of grain through the supply chain, levels will not be readily distinguished at the point of inspection at export.

The method of assessment has been altered to that of a weight basis, as that is more practical to apply. Given the variable nature of Sand/Soil, an assessment of the comparison between a count of pieces versus weight is problematic. The decision to adopt this tolerance mimics that for other commodities such as oilseeds, where indications are that the change has not significantly impacted on the production sector (recognising the different commodities and thus production practices).

2. Criteria for Setting of Standards

We note your agreement with NSWFA criteria for setting of GTA Standards, being in summary:

- *“That the standard will facilitate trade*
- *That the change is objectively linked to customers’ functional needs*
- *That comparisons between Australian standards and methodologies and that of competitors are objectively made*
- *That the change will provide a net economic gain to the value chain and in particular to farmers”.*

When considering decisions, the GTA Technical Committee Charter applies. Specifically that Charter states:

- Members shall be drawn from the grain industry and be individuals with specialist skills in production, storage, quality or trading; and
- Committee members do not represent the interests of a specific sector or member organisation but rather act in the best interests of the Australian grain supply chain.

As noted the members of the Committee are selected from all areas of the grain supply chain. Decisions are made on a consensus basis, taking into account the views of all Committee members.

While not all decisions are unanimous, the decisions are made based on consensus and the overall positive impact on industry. Where decisions are not unanimous, debate ensues in order to reach a decision that can be supported by the Committee.

Depending on the issue being reviewed, a range of material may be available to assist the Committee in its deliberations. While the complexity and breath of this material varies for each issue, the same decision making process is undertaken by the Committee, that is, the outcome must be in the best interests of the industry and not favour one sector at the behest of another.

Decisions of the Committee are made for the benefit of the industry, not for “net economic gain to the value chain and in particular farmers”.

As noted in your criteria listed above and outlined in this document the criteria of “facilitating trade, customer needs, competitor methodologies” are some of the criteria taken into consideration when making decisions. Each decision may require a different decision process with some criteria not applicable in certain instances. Nevertheless all criteria are considered as circumstances require.

We accept your offer for “further deliberation and explanation of changes to standards are required for the industry, specifically direct to growers”. GTA plans to implement a communication strategy to industry on the changes and this letter is the first of such communication methods. We also extend the invitation for GTA Standards Committee representatives to further discuss this response with your Grains Committee via teleconference if you believe this would be of value and would provide further clarity.

At that meeting it is hoped that with your input, further communication to grass-roots growers” can be discussed and developed.

Please note a second call for submissions from industry on the proposed 2015/16 Standards has been recently released by GTA. The Committee would welcome additional input should you consider it warranted.

Finally, please note that the process of receiving industry submissions has recently altered and all submissions, where received and unless confidential are provided on the GTA website. To ensure transparency of the process to industry, this response will also be made available to industry from the GTA website.

Thank you once again for your response.

Kind regards,



Mr Pat O'Shannassy
GTA Director / Standards Committee Chair