

8th November 2021

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Re Australia-India Comprehensive Economic Cooperation Agreement (AI-CECA) Submission

1.0 About GTA

Grain Trade Australia (GTA) is the focal point for the commercial grains industry within Australia. It facilitates trade and works to provide an efficient, equitable and open trading environment by providing leadership, advocacy and commercial services to the Australian grain value chain.

GTA members are responsible for over 95% of all grain storage and freight movements made each year in Australia. Over 95% of the grain contracts executed in Australia each year refer to GTA grain standards and/or trade rules.

GTA members are drawn from all sectors of the grain value chain from production to domestic end users and exporters. GTA members are involved in grain trading activities, grain storage, grain for human consumption and stock feed milling.

GTA welcomes the opportunity to make this submission to the Australia-India Comprehensive Economic Cooperation Agreement (AI-CECA). GTA supports the commencement of negotiations for the AI-CECA and welcomes the announcement of a Strategic Grains Partnership as part of this agreement.

2.0 Introduction

The Australian grains industry¹ is a major economic contributor in regional Australia and to export revenue, with annual value of production in 2021/22 forecast (excluding rice) to be a \$14.85 billion (b) at the farm gate (just behind the record of \$17.6b in 2020/21) and \$11.9b of exports (\$12.4b in 2020/21)², meaning the grain industry is the highest value industry in the agriculture sector, contributing more than 20% of Australia's agricultural gross value of production annually.

The industry achieved record production in 2016/17 at 59.5 million tonnes with 2021/22 estimated to approach this with a 52 million tonne crop, which followed a large crop of 58 million tonnes in 2020/21.

Trade is vital for the Australian grains industry and regional communities, with the Australian grains industry being highly export oriented e.g., 65 -75% of grain is exported. The Australian grains industry is well positioned to supply markets such as India.

GTA supports the commencement of negotiations for the AI-CECA and welcomes the announcement of a Strategic Grains Partnership as part of this agreement. The India-Australia relationship is important for many reasons. AI-CECA presents a unique opportunity to deepen and strengthen trade and economic ties with India. India is a very significant market for Australia's pulse industry and has the potential to be a much more significant market for range of cereal grains, pulses and oilseeds, and products. The An AI-CECA has the potential to significantly grow the grain trade to India, but to also contribute positively to India's grain

¹ Grains include wheat, coarse grains, oilseeds and pulses

² Source: ABARES, 2021

and food sector. The proximity, population and growing purchasing power of India's consumers will create new opportunities for Australian agricultural exports, particularly grains.

Opening new export market opportunities for Australian grains and products and reducing distortions in global markets are key priorities for the industry. In GTA's view a successful bilateral agreement with India could potentially provide a significant increase in export value to the Australian grains industry. However, growth in viable opportunities will require the AI-CECA agreement to deliver commercially meaningful gains in market access.

Trade in grains with India is currently underdeveloped, largely due to the tariffs, domestic price supports, subsidies on crop inputs (such as fertiliser, chemicals) and other protectionist measures that India applies to imports.

GTA supports a comprehensive and high-quality trade agreement with India that provides improved market access outcomes for grain and grain products. However, for market access opportunities in India to be profitable, there would need to be comprehensive reform of both tariff and non-tariff barriers to trade. Non-tariff barriers remain a significant impediment and any trade agreement with India must include a focus on the development and implementation of a systematic approach to addressing these barriers.

AI-CECA will support a new wave of prosperity in grain trade and investment between Australia and India. Australia's current grain trade to India is opportunistic due to India's range of domestic support and tariff policies and an AI-CECA would allow more diversity, certainty and consequently growth in Australia's grain trade with India. An AI-CECA will potentially boost opportunities for the Australian grain industry and support growth, development and trade opportunities for India's food manufacturing, stockfeed and livestock sectors.

3.0 India – a potential opportunity for the Australian grains industry

India is an attractive market for Australian exporters due to a rapidly growing large, diverse and wealthy consumer market. It is a significant and influential global player, with the OECD projecting that India's economy will grow 12.6% in 2021.

India's projected population growth supports increased food demand, with overall food demand expected to grow at 2–3 per cent in the period to 2025, with demand forecast to outpace local production/supply. However, growth is unevenly distributed regionally and across sector segments, with parts of India that will be self-sufficient while others are deficient. Alongside volume growth, increases in the middle-class consumer, changing diets and urbanisation are creating pockets of demand for high value products.

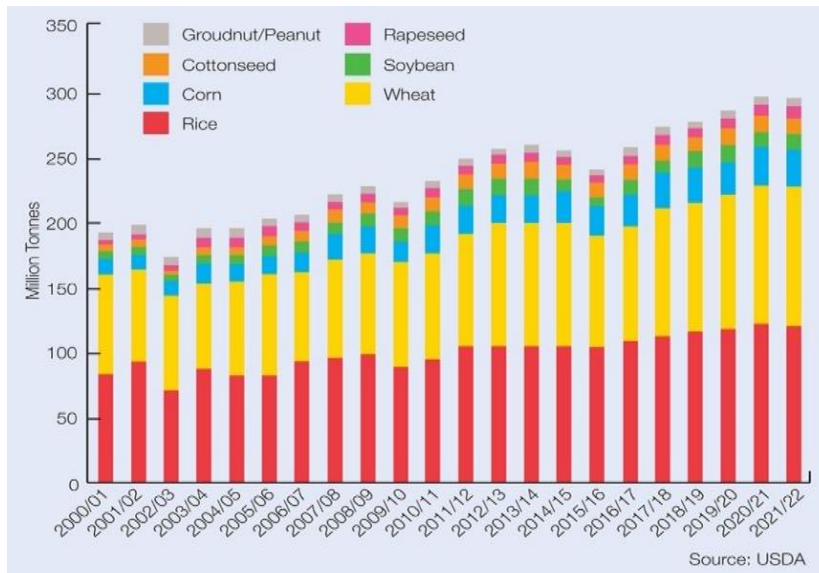
Growth potential for Australian exports remains in commodities that India needs due to shortfalls in production (pulses, grains, horticulture, oilseeds). Opportunities also exist, or will emerge, for value-added products sought by the growing middle class. Despite this, India remains a difficult market, characterised by fluctuating import demand and sharp and sudden policy changes which make it a high-risk market for exporters.

India's agriculture sector is highly protected. The Indian Government has three objectives: food security, food self-sufficiency, and income support for farmers. Consequently, the agricultural sector plays an important role in Indian economics, politics, and society.

3.1 India's grain industry and place in the global grain market

India is the world's second-largest producer of rice and wheat and by far the largest producer of pulses. Refer Figure 1 for India's grain production by key crops.

Figure 1: India main grain and oilseed production



Wheat and rice are the cornerstones of India's food security policy. During the past decade, India has consistently increased its minimum support price (MSP) for most supported commodities, including wheat and rice, with instances where India's domestic support for rice had exceeded its WTO commitments.

India's role as an importer or exporter can vary depending on its domestic production driven by seasonal conditions and domestic market support program. India has ambitions to be a major exporter. According to a recent USDA report, the MSP for wheat will provide Indian farmers with a guaranteed 100% return on input costs, ahead of many other crops. In 2021/22 the USDA report expects India to export 5 million tonnes of Indian wheat into traditional Australian markets such as Indonesia, at a USD15-20 per tonne discount to other origins³.

Total agricultural and allied products exports stood at US\$41.25 billion in 2020-2021. Wheat and other cereals were amongst commodities that posted significant positive growth in exports between FY20 and FY21 e.g. from US\$505 million to US\$799 million

India's grain and food industry is subject to a high degree of policy intervention, with partly opposing objectives of maintaining farmer incomes; and maintaining food security and affordable grain supplies to low-income households. Minimum producer support prices, input subsidies, public distribution systems, import tariffs, changing import conditions and other technical barriers to trade impact on opportunities in the Indian grain market.

Subsidies in some crop inputs such as fertiliser and chemicals as well as electricity inputs distort production costs, leading to distortions in production mix and production per se. The cost of these distortions impact local consumers and as well as Australian growers and bi-lateral trade.

The Indian wheat MSP has steadily risen during the past decade. In 2020/21, largely due to higher area planted to wheat, production rose by 4 percent, while consumption rose by 8 percent with additional allocations through India's National Food Security Act (2013), COVID relief, and various other programs. Refer Figure 24.

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https://apps.fas.usda.gov/newgainapi/api/Report/DownloadReportByFileName?fileName=Grain%20and%20Feed%20Update_New%20Delhi_India_10-30-2021.pdf

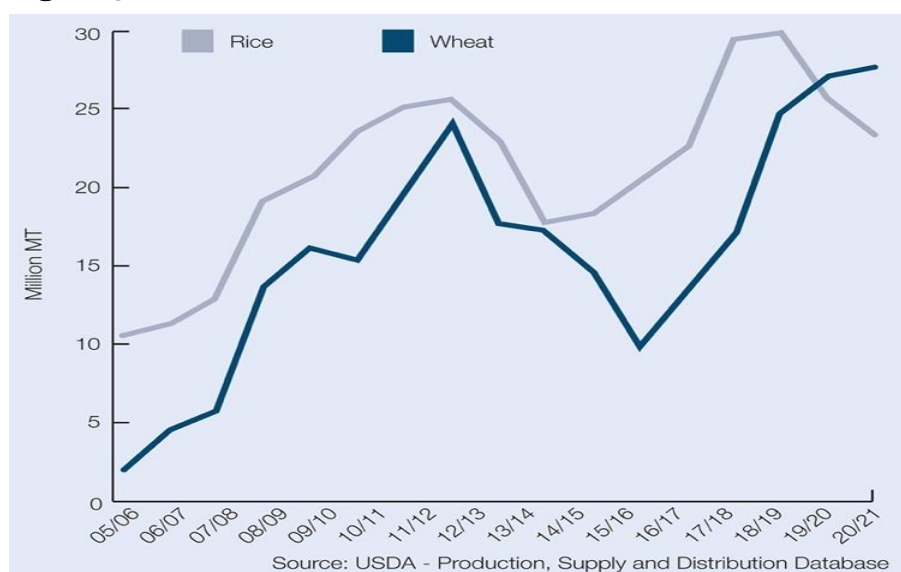
⁴ <https://www.fas.usda.gov/data/india-grain-exports-benefit-tighter-competitor-supplies-and-increased-price-competitiveness>

Figure 2: India producer and consumer prices



The higher MSP and the strong government procurement has seen government stocks grow substantially (refer Figure 3³).

Figure 3: Indian stocks of wheat and rice



Wheat

Indian wheat production has exceeded trends in the last five years on higher planting and productivity. Production is up due to the steady increase in the MSP, improved varieties, and generally favourable weather conditions. However, there are a number of challenges to the wheat sector in India including climate change impacts, and over-exploitation of groundwater due to flood irrigation giving rise to problems of soil salinity and declining water tables in wheat-growing regions.

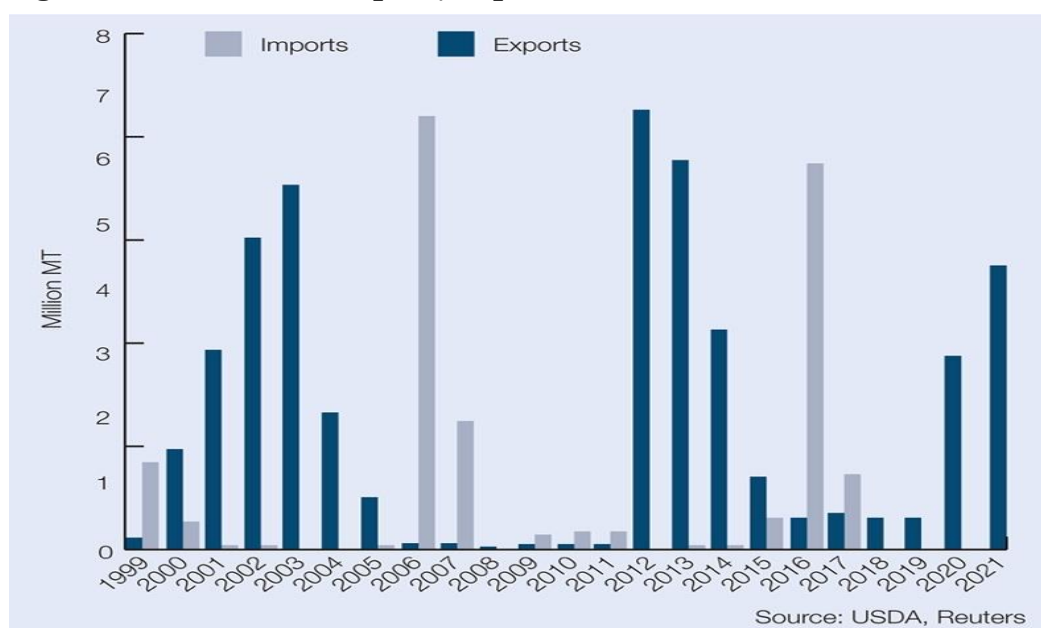
Wheat is the preferred crop in irrigated areas in the wheat-producing states due to increases in the government's MSP prices. Wheat is favoured because of its relatively stable yields when compared to other competing rabi (winter planted) crops (e.g., corn, pulses, oilseeds, and other coarse grains). Wheat area consequently over the last decade has remained stable at 29-32 million hectares. Refer Table 1.

Table 1: Indian Wheat production & distribution

'000 tonnes	2019/20	2020/21	2021/22
Production	103,600	107,860	107,000
Consumption	95,409	103,085	104,000
Exports	509	2,000	2,000

Source: USDA

India is an erratic participant in the international wheat market and can either be an importer or an exporter of grain (refer Figure 4).

Figure 4: Indian Wheat Import / Exports⁵

Wheat is the staple food in northwest and central India. It competes with rice in wheat non-growing regions in south and east India. Households, local restaurants, and eateries account for about 80% of the wheat domestically consumed in India. Some wheat is used for processed food products such as raised breads, biscuits (cookies), and other bakery items (about 12-15%). There is also a small market for high-quality wheat (4-5 MMT) for western-style pasta, and baking/confectionary foods.

While high domestic supplies and high import duties limit imports, India's growing fast food and bakery/confectionery industries are demanding specialty flours that require different wheat classes that are not produced locally. Imports of wheat and wheat products to meet this speciality market are forecast at 25,000 MT in MY 2021/2022. This provides opportunity for high quality wheat such as Australia produces.

In 2020/21, Indian wheat exports are expected to rise to the highest level in several years due to a number of factors including high MSPs, ample domestic supplies, tighter exportable supplies from competitors, and strong global demand.

Coarse grains

India's coarse grain production is predominantly dryland (85%) and includes corn (29 MMT), millet (12 MMT), sorghum (4.6 MMT), and barley (1.95 MMT) (2021 values). Refer Table 2.

Table 2: Indian Barley production & distribution

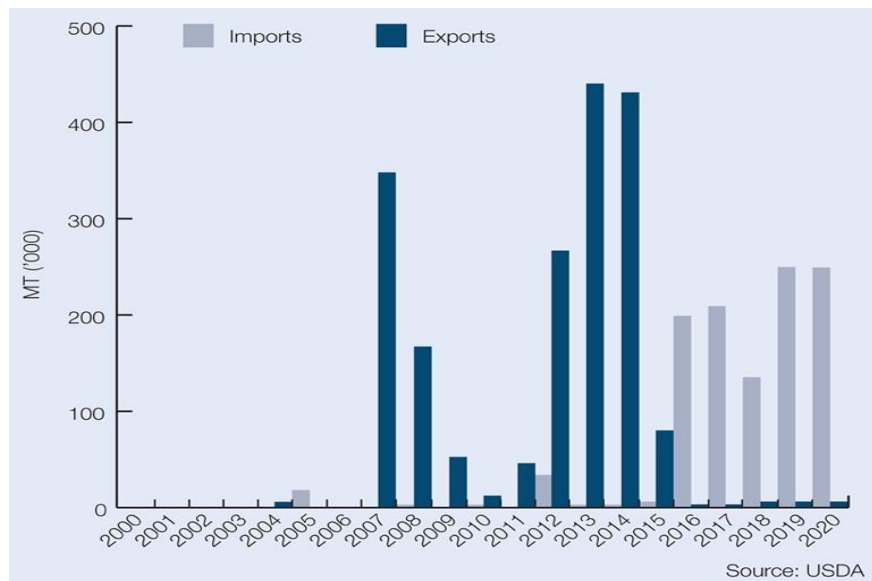
'000 tonnes	2019/20	2020/21	2021/22
Production	1,633	1,722	1,950
Consumption	1,850	1,900	2,000
Exports	1	5	10

Source: USDA

⁵ Thomas Elder Markets

India has been a regular importer of barley in recent years (refer Figure 5) and is an emerging opportunity for Australia following successful negotiations on fumigation protocols.

Figure 5: Indian Barley Import / Exports⁴



Pulses

India is the largest consumer and importer of pulses in the world and produces a quarter of all pulses in the world. Pulses are a primary source of protein and are widely used in daily cooking. Pulse ingredients such as pea protein and pea starch are increasingly used in packaged foods.

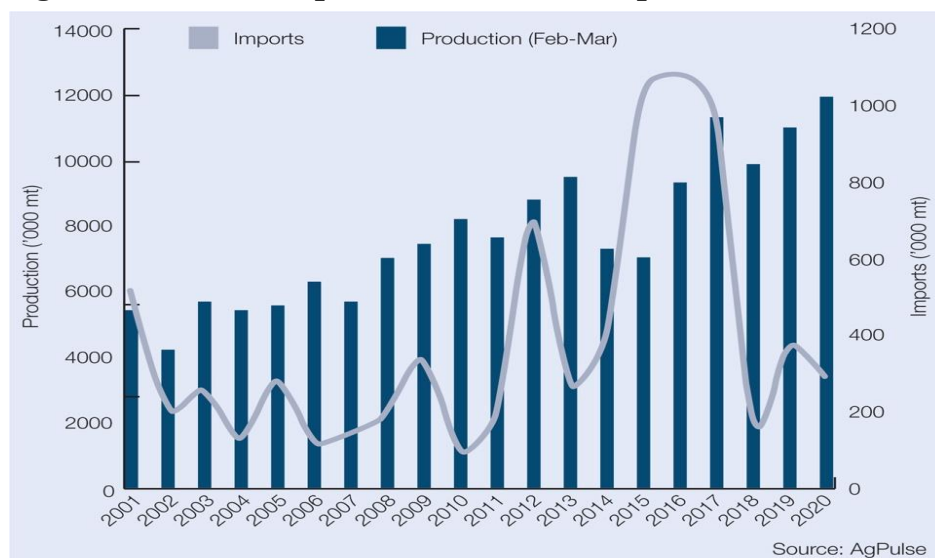
India grows a large number of pulses across multiple agro-climatic zones:

- Kharif: Arhar (pigeonpea); urad (black gram); moong (green gram); barbati (cow pea), lathyrus
- Rabi: gram; pea; ramjash masoor (lentil)
- Zaid (summer): urad; moong; cow pea

There is a heavy reliance on pulse imports due to generally insufficient domestic supply, with this expected to continue.

Currently India is facing improved prospects for pulse products, although a lack of transparency on data is an ongoing challenge for the grain trade. Refer Figure 6 for chickpea production and imports.

Figure 6: Indian Chickpea Production and Imports⁴



In late 2017 India introduced tariffs (and taxes) on lentils and chickpeas which represented an overall rate of 33% (tariff & tax). Peas are also impacted by tariffs, which are currently 50%.

India has recently reduced the import duty on lentils to 11% and this is expected to see lentil imports increase. The lower tariff aims to reduce the retail price of Masoor Dal (lentils). The Indian Government holds limited lentils buffer stock, unlike chickpeas and pigeon peas and thus, its ability to lower retail prices by releasing stock into the market is limited.

Processed and packaged pulses offer opportunity for suppliers like Australia. While only currently a small share of pulse consumption, there will be key pockets of growth with demand for packaged and branded pulses forecast to grow at 12 per cent per annum to 2025.

Oilseeds

India is the world's biggest vegetable oil importer. While India grows several oilseeds - mainly peanuts, soybeans and rapeseed (mustard) - their prices are not guaranteed by the government like grain prices are. As a result, Indian output of rice and wheat is nearly six times greater than total oilseed output on average.

India produced about 11 million tonnes of edible oils in 2019-20, less than half of the roughly 24 million tonnes it consumed and as a result vegetable oil imports have surged to 15 million tonnes from 4 million only two decades ago. India imports palm oil from Indonesia and Malaysia, soy oil from Brazil and Argentina, and sunflower oil, mainly from Russia and Ukraine. It is estimated that imports could reach 20 million by 2030, boosted by a growing population with higher incomes and taste preferences. Refer Table 3.

Table 3: Indian oilseed and oil imports

'000 tonnes	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
Palm oil	9,341	8,608	9,710	7,398	8,000	8,300
Soybean oil	3,534	2,984	3,000	3,626	3,600	3,625
Sunflower oil	2,151	2,476	2,328	2,514	2,250	2,700
Rapeseed/ canola oil	317	278	62	78	50	80
Other vege oil	82	120	150	117	144	144
Soybeans	79	166	204	520	350	250
Other oilseeds	20	11	28	24	20	20
Soybean meal	10	10	49	23	440	830
Other meal	508	399	464	676	442	657

Source: USDA

4.0 Australia's grain industry trade with India

Australia's two-way agricultural trade with India was valued at over \$1 billion in 2020. Australia's key agricultural exports to India in 2020 were lentils, greasy wool, almonds, raw cotton and oats.

India is the world's largest importer of pulses and is expected to increase its imports of grains and oilseeds in the future. The Australian grain industry is potentially a strong beneficiary of India's growing import demand for grains.

Increasing rates of demand growth, driven population and changing diets is expected to see India be a key import market for grains, oilseeds and pulses. The development of a more intensive livestock industry will likely exacerbate India's need for imports to help meet future grain consumption requirements.

However, India is an ad-hoc importer due to local seasonally induced production shortages and domestic market support policies. Export data for past five years is shown in Table 4.

Table 4: Australia's grain exports to India

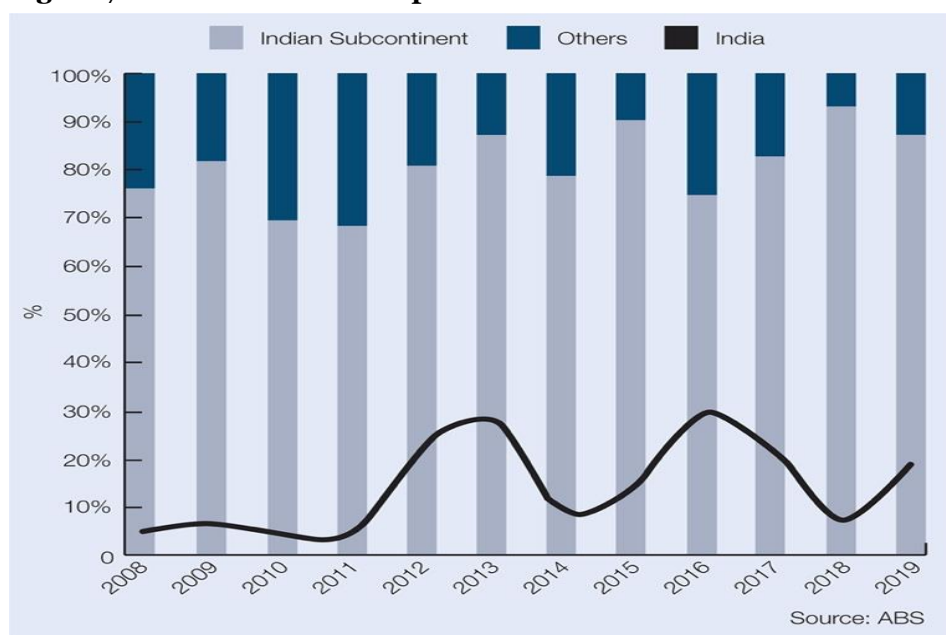
Commodity	2016	2017	2018	2019	2020	2021	5 year av
Wheat	918,683	1,798,371	30,780	1,590	58	29	549,896
Barley	2,390	3,455	6,184	4,845	2,533	1,298	3,881
Canola							0
Chickpeas	732,502	1,103,502	2,742	4,163	7,601	3,552	370,102
Field peas							0
Lentils	25,553	284,970	19,620	88,995	153,106	70,043	114,449
Faba beans	2,240	5,110	1,273	542	1,862		
Peas	34,331	46,950	6,035	18	0		
Oats	1,667	5,034	3,214	2,957	20,352	28,048	6,645
Safflower	1,565	1,555	1,824				0
Safflower oil ¹							0

¹ Safflower oil exports commencing from 2020/21 with new super high oleic safflower. Expected to grow considerably in next few years

Source: Comtrade, Australian Crop Forecasters

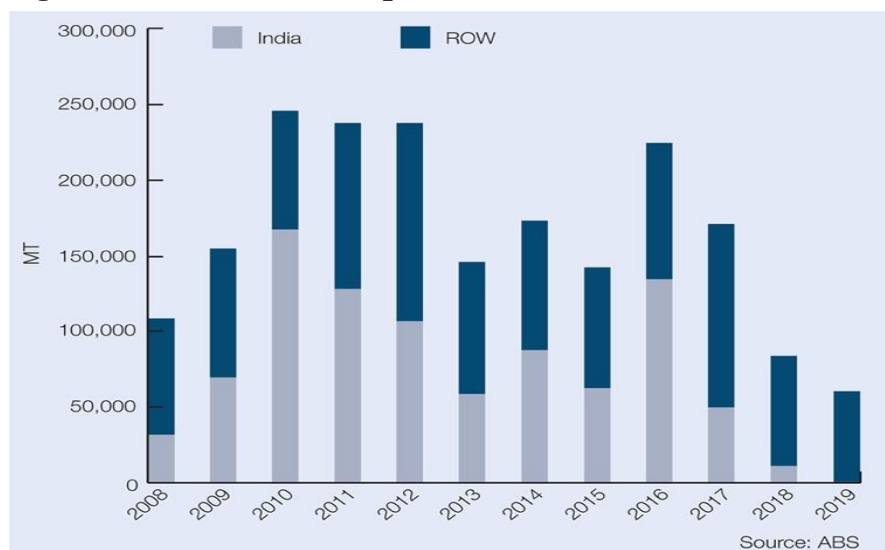
India is a critical market for pulses, although this has been significantly curtailed since 2017 with the introduction of tariffs/taxes. In general, the Indian subcontinent (Bangladesh, India, Pakistan & Sri Lanka) is the most important customer for Australian lentils (approximately 80% of exports) with India accounting for 15% of exports but were as high as 30% (2016). Refer Figure 7.

Figure 7: Australian Lentil Export Destinations⁴



Australian chickpeas still face a 60 per cent tariff, while peas have a 50% tariff. India has been an essential customer for Australian peas, and in many years, they have been the destination for >50% of Australia's exports. There are few alternate destinations and thus, the tariff has a significant impact on Australian farmers. Refer figure 8.

Figure 8: Australian Pea Export Destinations⁴



5.0 Tariffs imposed on grains by India

Import tariffs are applied to most imported food products and act to keep domestic food prices above world levels. In the case of grains, increased prices support the purchasing operation of the FCI. Applied tariff rates are among the highest in the world. Tariffs facing exporters are also generally unclear, with very high bound rates, statutory duties reported to the World Trade Organization, and an actual applied rate which is paid on import.

Tariffs on grains and pulses are bound between 50 and 100% and are frequently changed based on Indian domestic production levels and market prices. In some cases, competitor products have more favourable tariffs e.g. soybean oil versus canola or safflower oil. Refer Table 4 for summary of tariffs on key grains.

Table 4: Indian MFN applied tariffs on grains and grain products

Year	HS code	Product	Number of tariff lines	Average ad valorem duties (per cent)	Maximum ad valorem duty (per cent)	Duty free tariff lines (per cent)
2020	1001	Wheat and meslin	5	77.5	100	0.0
2020	1003	Barley	2	0	0	100
2020	071310	Peas	3	50.0	50	0.0
2020	071320	Chick peas	3	53.3	60	0.0
2020	071340	Lentils	1	30.0	30	0.0
2020	071350	Faba beans	1	0.0	0	100.0
2020	1004	Oats	2	0.0	0	100.0
2020	1007	Sorghum	2	30.0	50	0.0
2020	1205	Canola	2	30.0	30	0.0
2020	120760	Safflower	2	30.0	30	0.0
2020	1507	Soybean oil	3	40.0	45	0.0
2020	1514	Canola oil	13	41.9	75	0.0
2019	1512	Safflower oil	10	100.0	100	0.0

Source: WTO

6.0 India's Non-Tariff Measures (NTMs)

In 2017, with funding support from the Department of Agriculture, Water & Environment (DAWE), the grains industry undertook a major study to identify commercially significant non-tariff barriers or measures (NTMs) for the grains industry. This report was pivotal in establishing a baseline for NTMs impacting the grains industry and the industry continues to work closely with DAWE and DFAT to identify and address NTMs.

India has a wide range of non-tariff barriers or measures (NTMs) that hinder and distort trade. The impact of these NTMs include no/restricted market access, distorted supply/demand balances, uncertainty, risk and compliance costs. Notable NTMs include:

- **MSP** - India's agricultural and food policies have three broad objectives: food security, food self-sufficiency and income support for farmers. Among the many policies employed to meet these objectives are the subsidised prices of staple grains paid by consumers and the guaranteed minimum support prices (MSP) received by farmers for their grain. The minimum support prices for wheat, rice and coarse grains (maize, barley, grain sorghum and millet) have generally been increasing.
- **Food subsidies**- the Indian Government operates a subsidised food distribution program to combat food insecurity. Under the scheme, low-cost food grain is made available to Indian consumers through the Targeted Public Distribution System (TPDS). The FCI provides grain to the TPDS from government stocks.
- **Sanitary and phytosanitary (SPS) issues** – These are often treated inconsistently, without transparency, and driven by politics over science. They often diverge from internationally accepted standards such as the Codex Alimentarius Commission and the International Plant Protection Convention (IPPC). As a result, import certification requirements can be imposed which are not in accordance with international food safety measures.

A key concern for the Australian grain industry relates to India's import conditions for grains and seeds including nil tolerance for 57 weed seeds of quarantine concern, nil tolerance for ergot in wheat and barley, the mandatory requirement for methyl bromide fumigation for quarantine pests (pulses) and a general lack of MRLs for key chemicals registered for use in Australia.

- **Import clearance process** and lack of clarity around sampling and testing.
- **Biotechnology and LLP** - importance of encouraging agricultural innovation and facilitating trade in products of agricultural biotechnology, while fulfilling legitimate objectives, including by promoting transparency and cooperation, and exchanging information related to the trade in products of agricultural biotechnology.

7.0 Outcomes sought through the AI-CECA

GTA welcomes the announcement as part of the Joint Statement on a Comprehensive Strategic Partnership between Republic of India and Australia by the Hon Prime Minister of India Shri Narendra Modi and the Hon Scott Morrison MP, Prime Minister of Australia on 04 June 2020 that the AI-CECA would include a strategic grains partnership:

“Recognising the long history of collaboration in agricultural research, education, development and capacity building, it was jointly decided to continue building on our mutually beneficial agriculture relationship including through exploring the development of a partnership on grains management and logistics to reduce post-harvest losses, rationalise costs and ensure farmer income is not affected by supply chain disruptions (particularly in light of the COVID-19 pandemic).”

The announcement also acknowledged that:

“Both countries noted that on market access issues, some progress has been made and they demonstrated their strong commitment to continue the negotiations.”

GTA is currently undertaking a project, funded by DAWE ATMAC program, to develop a framework for a Strategic Grains Partnership between India and Australia. GTA sees this as a critical opportunity for implementation and progression of improved relationship and trade facilitation between India and Australia’s grain industries.

Other key elements of the AI-CECA should include:

- **Tariff reform is essential** – GTA supports a shift to zero tariffs over an agreed period, but also importantly greater predictability of Indian market interventions is critical. In the absence of an agreement to move to zero tariffs, tariff free quotas could be sought to mitigate risk and provide a level of certainty/predictability for participation in the growth of Indian grain consumption.
- **Transparency is essential** - transparency is of fundamental importance in the negotiations. Greater predictability of Indian market interventions – ability to manage exposure to India through mechanisms such as advanced warning of changes to Indian domestic production, particularly those that will trigger increased tariffs and other penalties on imports.
- **Most favoured nation (MFN) clause** - Considering the rapid expansion of bilateral and regional trade agreements and the ambitions of competitors to establish preferential access rights, an MFN clause, covering all grain products is an essential component of an agreement. This would preserve a level playing field on market access for Australian origin grain products.
- **Systemic approach to non-tariff measures/barriers (NTMs)** - The plethora of NTMs is a significant burden on exporting grain products from Australia and acts as a disincentive or barrier to trade. While there have been some improvements in market access (e.g. phosphine treatment of malting barley), a range of NTMs continue to hinder trade. The industry considers it of critical importance that a coordinated policy approach be taken by Australia in negotiations to establish a systemic approach to resolving NTMs. This should address issues such as:
 - *Sanitary and Phytosanitary (SPS)*
 - *Electronic certification/documentation*
 - *Regulatory cooperation* i.e. address NTMs in such a way that facilitates trade without compromising product safety or quality assurance through adopting international standards where they exist or adopting industry best practice where international standards do not exist (e.g. MRLs, sampling and testing, biotechnology, etc)
 - *Capacity building* to enable customs and biosecurity authorities to employ best practice methods that are based on sound science

8.0 Conclusion

GTA believes the opportunity for a comprehensive trade agreement between India and Australia offers significant potential benefits for both countries, notably in the agricultural and grain sectors. We believe strongly that grains must be included with meaningful outcomes in any credible agreement that delivers benefits for both countries.

India's current policy approach and settings in the grain sector result in distorted supply, lead to uncertainty and risk (including sudden implementation of trade inhibiting barriers) for the grain trade and growers. As part of a credible agreement, we encourage both countries to commit to an objective science and risk-based approach to trade and biosecurity, and to develop an agreed framework, including regular formal high-level (Ministerial) dialogue to facilitate this.

In terms of meaningful market access outcomes, we encourage the Australian Government to seek tariff-free market access or failing that at least tariff-free quotas for Australian grains together with MFN status.

We believe there are realistic opportunities for the Australian Government to support a collaborative approach to improving skills, capability and understanding of our respective grain industries in support of growth in trade.

We thank you for the opportunity to make this submission. We request that you keep us updated on developments and progress in this important relationship and negotiation.

Please do not hesitate to contact GTA should you have any queries or should we be able to be of assistance.

Yours faithfully,



Pat O'Shannassy
CEO, Grain Grade Australia