

The Changing Trade Landscape in Asian Grain Markets: An Australian Perspective

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ABSTRACT

Asia is a globally important source of grain supply and demand, and its demand for grain is continuing to grow. Ensuring that Asian food producers have access to sufficient quantities and qualities of local and imported grains at affordable prices is a major challenge for many Asian governments. To underpin food security, many Asian countries engage in grain trade. The principal grain grown in Australia is wheat, and the majority of Australian wheat is exported to Asia. Two-row spring-type barley is another main grain produced in Australia and is also sold principally in Asia. China is the single most important export market for Australian malting barley. Unfortunately, in May 2020 China announced the introduction of an effective 80% tariff on all Australian barley imported into China, which has halted the barley trade between Australia and China. Australian malting barley is flowing to other Asian markets but will need to enter large feed barley markets such as Saudi Arabia to remain sustainable. Because farmers will receive lower prices for feed barley, the future of barley production in Australia is uncertain, as barley farmers are likely to switch to other more profitable crops, such as wheat and canola.

Asia is a globally important source of grain supply and demand, and its demand for grain continues to grow for two key reasons. First, the region's population continues to increase. Second, Asia's per capita wealth continues to rise, causing an increase in direct and indirect consumption of grains.

Few Asian countries export much grain (Fig. 1). The exceptions are Thailand and Vietnam, which are major exporters of rice. Most Asian countries need to satisfy their domestic demand for grain via local production and some combination of a drawdown of local stocks and importation of grain (8).

China is unique in producing huge volumes of grains (corn, rice, wheat, and soybeans), while also maintaining large stocks of several grains: wheat and corn and, to a lesser extent, soybeans. China also imports large volumes of feed grains, principally soybeans and some coarse grains (corn and barley). Most other Asian countries produce relatively small volumes of grain, apart from rice and corn, maintain modest reserves of grain, and principally rely on grain imports, especially feed grains.

As Asians become wealthier, their indirect consumption of grains is increasing as their diets contain more meat and dairy products (1,7), the production of which often depends on local and imported feed grains. In addition, direct consumption of grains is increasing as millions are lifted out of poverty and inadequate nutrition, while others are shifting away from almost exclusively rice-centric diets to diets that include wheat-

based noodles, breads, and biscuits (cookies) and cakes (2,4) or who drink malt-based beers and, therefore, indirectly consume barley (5).

Ensuring that Asian food producers have access to sufficient quantities and qualities of local and imported grains at affordable prices is a major challenge for many Asian governments. Food security and affordability are principal concerns for many governments, as food purchases remain a major proportion of household expenditures. For example, in Laos and Vietnam close to half of all household expenditures are allocated to the purchase of food (6).

To underpin food security, many Asian countries engage in grain trade. Hence, grain trade policies are important economic and political issues. Yet, these trade policies are often politically sensitive issues as they need to be formed against the backdrop of rural populations in Asia, which are an important proportion of each country's population, and Asian grain farmers who are often small-scale operators in need of government support. An additional overlay for China is the use of its market size to further its geopolitical role.

Australia's Grain Trade Landscape in Asia

The principal grain grown in Australia is wheat. Australia produces, on average, about 25 Mt of wheat each year, accounting for 3.5% of annual global production. The Australian wheat industry is export oriented, shipping about 65–75% of the nation's total production to more than 50 countries. However, the majority of Australian wheat is exported to Asia, which accounts for 70–80% of Australia's exports. The main Asian export markets for Australian wheat are Indonesia, the Philippines, Vietnam, China, South Korea, and Japan (Table I).

Over much of the last decade Indonesia was a dominant export market for Australian wheat (3). For example, in 2017, 5.2 Mt of wheat was exported from Australia to Indonesia. However, in 2018, as drought gripped eastern Australia, only 2.2 Mt was exported to Indonesia, and as the drought continued into 2019, even less wheat was exported to Indonesia. Australia's share of the Indonesian wheat market fell from 70% to less than 10%. As Australian wheat became scarcer and more expensive, Indonesian flour millers turned to other cheaper sources, such as Ukraine and Argentina. Australian wheat that ordinarily would have shipped to Indonesia instead fueled Australia's domestic food and feed wheat markets, such that Australia's market share in Indonesia collapsed. From July 2019 to January 2020, Australia's market share of wheat imports in Indonesia was only 8%.

Indonesian flour millers and noodle manufacturers learned how to produce instant noodles with higher proportions of wheat from cheaper sources, thereby reducing their dependence on Australian wheat. Russia and Ukraine are now major exporters to Indonesia, which is the world's second largest importer of wheat.

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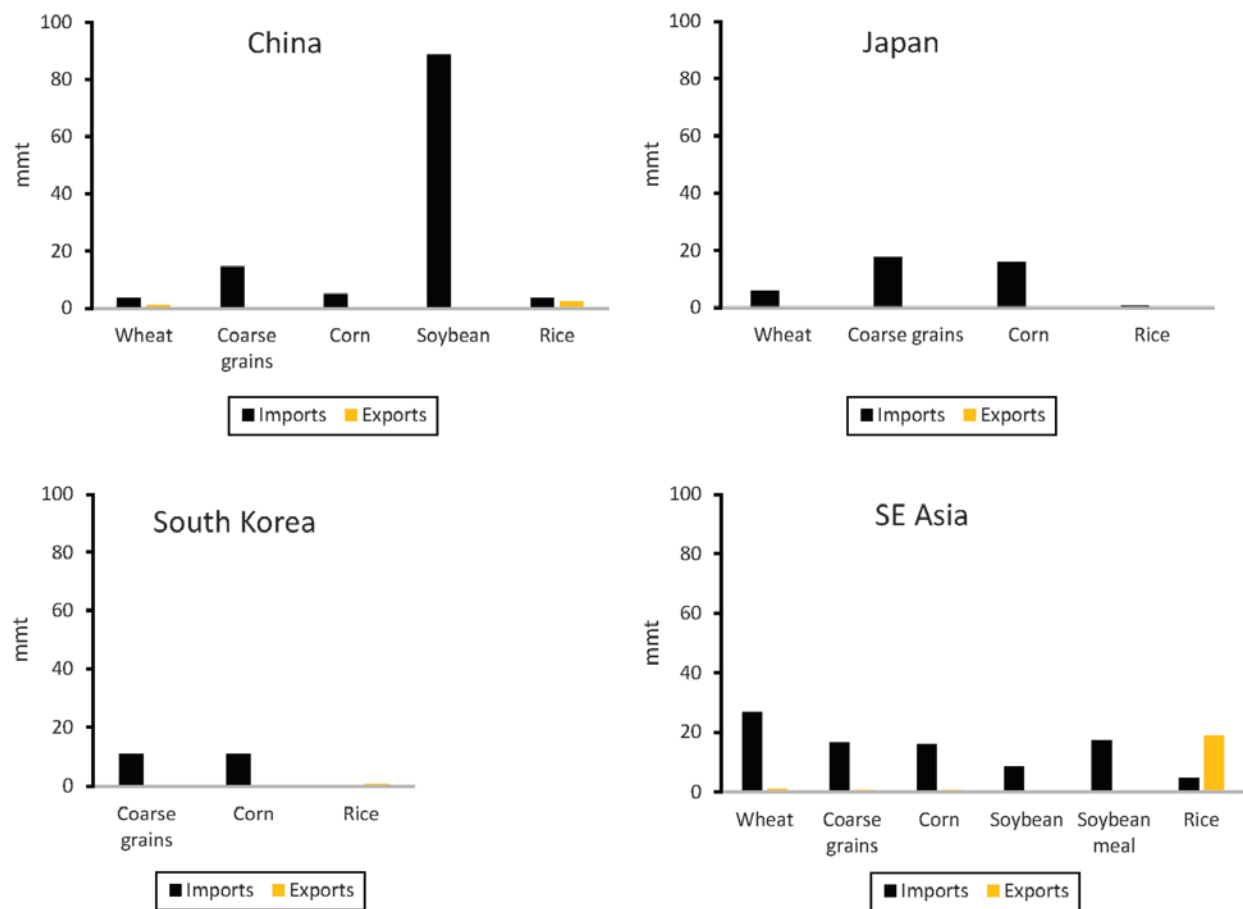


Fig. 1. Export and import of principal grains by Asian countries (average 2017/2018 to 2019/2020). Source: USDA data (8). Note, rice data for South-east (SE) Asia only includes Indonesia, the Philippines, Vietnam, Thailand, and Myanmar (Burma).

Table I. Australian exports of wheat to key Asian markets

Rank	Country	Australian Wheat Exports (Average of 2015–2019 [Mt])
1	Indonesia	3.17
2	Philippines	1.38
3	Vietnam	1.31
4	China	1.06
5	South Korea	1.06
6	Japan	0.91
7	Malaysia	0.80

The other main grain produced in Australia that also is principally sold in Asia is two-row spring-type barley. Australia’s annual average production of barley is about 7.5 Mt. Australia produces around 2.5 Mt of malting barley and 4.5 Mt of feed barley. Globally, Australia is a major exporter of barley, representing more than 40% of the world’s malting barley trade and 20% of the feed barley trade. China is the single most important export market for Australian barley. From 2014 to 2017 China imported an average of 4.3 Mt per annum from Australia, or around 70% of all Australian barley exports.

A minor grain exported to Asia from Australia is oats. About 20% of Australia’s annual production (~1.5 Mt) of oats is exported to international markets, principally China and Japan. In Asia there is increasing consumer interest in the beneficial health properties of oats and its food products, such as oat noodles, oat milk, and oat rice.

Australia’s Asian Trade Agreements

The following are Australia’s free trade agreements with Asian countries (listed with the entry-into-force date):

- Singapore-Australia (SAFTA) – July 28, 2003
- Thailand-Australia (TAFTA) – January 1, 2005
- ASEAN (Association of Southeast Asian Nations)-Australia-New Zealand (AANZFTA) – January 1, 2010 for eight countries: Australia, New Zealand, Brunei, Myanmar (Burma), Malaysia, the Philippines, Singapore, and Vietnam. For Thailand: March 12, 2010. For Laos: January 1, 2011. For Cambodia: January 4, 2011. For Indonesia: January 10, 2012
- Malaysia-Australia (MAFTA) – January 1, 2013
- Korea-Australia (KAFTA) – December 12, 2014
- Japan-Australia (JAPEA) – January 15, 2015
- China-Australia (ChAFTA) – December 20, 2015
- Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) – December 30, 2018
- Australia-Hong Kong (A-HKFTA) – January 17, 2020
- Indonesia-Australia Comprehensive Economic Partnership Agreement (IA-CEPA) – February 10, 2020

The most recently ratified agreement, IA-CEPA, has several potential benefits for Australia’s grains industry. In 2018–2019, the total two-way trade in goods and services between Australia and Indonesia was worth A\$17.8 billion, making Indonesia

Table II. Main agricultural commodities included in the Indonesia-Australia Comprehensive Economic Partnership Agreement (IA-CEPA)

Product	Treatment at Entry	Longer Term Outcome
Live male cattle	Duty-free (from 5% tariff) access for 575,000 cattle in year one.	4% annual growth to 700,000 by year six: a review for subsequent increases.
Frozen beef and sheep meat	Tariff cut to 2.5% (from 5%) and access for unlimited volume.	Elimination of tariff after five years.
Feed grains	Duty-free access for 500,000 tonnes in year one.	5% annual growth in volume thereafter.
Dairy	Elimination or reduction of tariffs across a number of dairy lines.	Removal of all remaining tariffs on dairy lines.

Australia's 13th largest trading partner. The main agricultural commodities covered in the agreement are listed in Table II.

The most obvious benefit to the Australian grains industry is the 0.5 Mt duty-free access for feed grains, which is potentially of most benefit to feed barley exports, especially noting the allowance for an annual increase in the duty-free volume of 5% each year. The greater ease of entry of live cattle, meat, and dairy products will provide a further advantage to grain production in Australia as these animal-based products often are based on supplementary grain-feeding.

The other recently ratified trade agreement, the CPTPP, also provides some market access advantages for some Australian grain exports. The main benefits will stem from market access improvements in Japan for wheat, barley, and malt, building on JAEPA, including

- 1) Reduction of the mark up on wheat and barley by 45% within 8 years of entry into force of the CPTPP.
- 2) The creation of new quota volumes for wheat and barley under the simultaneous buy-sell mechanism. Australia's exports of these products to Japan were worth A\$553 million in 2017.
- 3) New quota access for malt exports.

Although the CPTPP includes significant reductions or eliminations of tariffs on Australian cereals able to enter markets like Mexico and Canada, Australian exporters will rarely, if ever, be in a position to profit from exporting large volumes of cereals into those markets. Rather, the benefit of the CPTPP to Australian grain producers is more likely to come from the greater ease of access to export markets for Australian meat, wool, and dairy products and the subsequent derived demand for Australian feed grains to support the production of those agricultural exports.

Australia's Asian Trade Tensions

China is the main export destination for Australian barley, and Chinese beer manufacturers rely on Australian barley as a key ingredient in their malt houses. Nonetheless, in late 2018 China unexpectedly launched its first ever antidumping investigation against Australia, targeting barley exports.

Dumping is unfair price discrimination in which a producer sells a product to an export market at a lower price than it sells it at home. As such, it is rightly viewed as an unfair trade practice that gives exporters a competitive advantage over the importing country's local producers.

In early 2019 Australia presented detailed evidence to China that its export of barley to China did not constitute dumping. Under the World Trade Organization's process, antidumping investigations can be extended for a further 6 months beyond the initial 12 months of the investigation, and so China opted to

delay the finalization of its investigation, and subsequent response, until May 19, 2020.

Although barley trade analysts and trade experts were confident that Australia had not engaged in dumping barley in China, nonetheless China announced in May 2020 the introduction of an effective 80% tariff on all Australian barley imported into China. This tariff has halted the barley trade between Australia and China.

As a result, China is increasing its imports of malting barley mainly from Canada and France. Australian malting barley is flowing to other Asian markets such as Vietnam but will need to enter large feed barley markets such as Saudi Arabia. Australian barley farmers will receive lower prices and will likely switch away from barley production to other crops such as wheat and canola.

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