

# IA-CEPA and feed grains

## - a foothold for growth into South East Asia

By 2030, the spending power of Asia's middle class is expected to exceed that of the rest of the world combined. South Asia (including the Indian subcontinent) plays an important role in this growth story.

The feed grain deficit in South East Asian livestock markets is expected to increase by 10 million metric tonnes in the next decade and when combined with flour milling this deficit increases to 22 million metric tonnes.

Trade with China tends to dominate discussion around the opportunities for Australian grain products in Asian markets. And, growth opportunities in India, Indonesia, Philippines and Vietnam should not be overlooked. There are also countries like Myanmar which, whilst small relative neighbouring economies, is expected to become next one million metric tonne ASEAN wheat importer. However, it is Indonesia that presents an interesting opportunity for Australian feed grain exports.

The partnership between Australia and Indonesia is a significant one, with a population in excess of 260 million people, Indonesia expected to become the world's seventh largest economy by 2030. In 2017/18 Australian wheat exports to Indonesia were valued at \$1.4 billion.

An important component of the recently signed IA-CEPA for the Australian grains industry is the inclusion of a 500,000 metric tonne quota for the importation of feed grains from Australia. Feed grain imports are effectively banned under

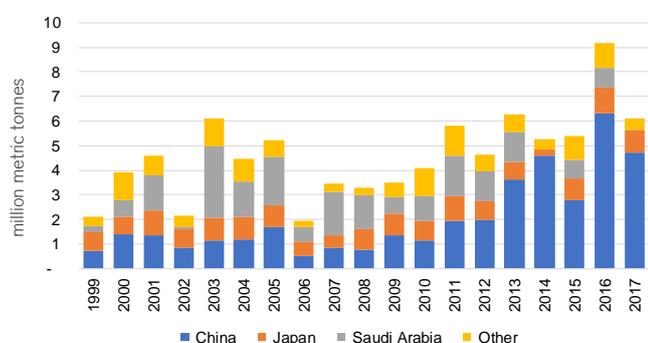
Indonesia's current import regulations. Australia will be the only country with formal access to the Indonesian feed grain market, hence this new provision provides a significant opportunity for Australian feed grains, particularly feed barley.

Over the 15 years to 2017, China's share of Australian barley exports has increased from 25% to 75% making China a significant market for Australian barley. As China continues anti-dumping investigations into Australian barley imports, finding alternative markets for Australian feed barley has become increasingly important for the Australian Grain trade. Indonesia presents an opportunity for a alternative market for Australia's feed barley.

As the most affordable source of animal protein in Indonesia, poultry plays an important role in local diets. Poultry products including eggs account for 64% of Indonesia's animal protein consumption, and 95% of the local stock feed requirement. Feed barley is effective in ruminant diets yet unlocking access to this market may require a level of education on the benefits of Australian feed barley and to best utilise it.

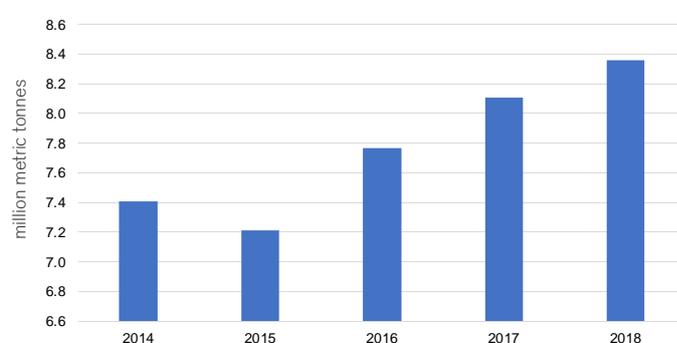
Indonesia is also a significant wheat consumer, with 11.8 million metric tonnes of flour milling capacity in 2017 across 28 mills, up from only four mills in 1998. Indonesia plays an important role as a competitive supplier of flour to South East Asia, and exports of flour-based products are growing in both volume and value. As a major supplier of wheat to Indonesia's flour mills Australia plays an important role in the success of Indonesia's flour milling sector.

### Australian barley exports



Source: Australian Crop Forecasters, ABS

### Indonesian milling wheat consumption



Source: Indonesian Flour Mills Association

Unfortunately, Australia's market share in Indonesia has fallen from 50% to just 24% in 2018, this loss is driven in part by increased competitiveness and availability of alternative products particularly from the Black Sea, and in part by successive years of below average crops and smaller exportable surpluses.

Growth in exports of Indonesia's wheat-based products, contributes to growth of accompanying products like palm oil, coconut sugar and chilli, thus supporting Indonesia's local agricultural industries. However, Indonesia must remain competitive, and whilst local flour millers recognise the superior quality of Australian product competitive pricing remains important. Further improvements in the quality of wheat from regions like the Black Sea and improvements in Indonesia's understanding of alternative wheat sources remains an ongoing risk for Australian market share into Indonesia.

Indonesia is well known for its flour milling capability, it is also a significant consumer of feed grains. With 25.5Mmt of feed

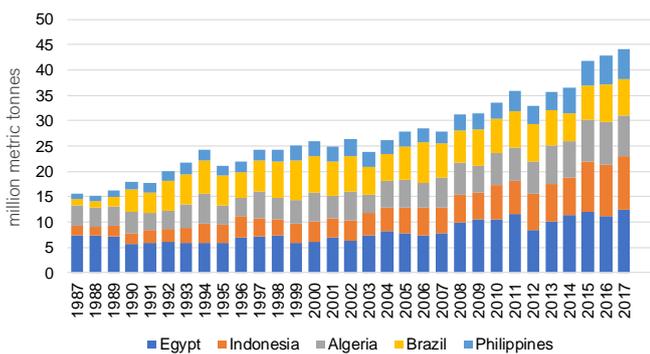
milling capacity across 103 mills, Indonesia's feed milling capacity exceeds the entire average Australian wheat crop. In 2019, feed consumption across the livestock and aquaculture markets is expected to reach 20.4Mmt, the majority of which supports the local poultry industry.

It is a great milestone to see the IA-CEPA signed, however we don't have the scale to be a sole supplier of grain to Indonesia and therefore must ensure activities to increase market share do so in ways that create value rather than eroding it.

Although Australia is well positioned geographically to meet some of this demand, some fear exists that Australia will need to find production gains in order to benefit from the full magnitude of the opportunity.

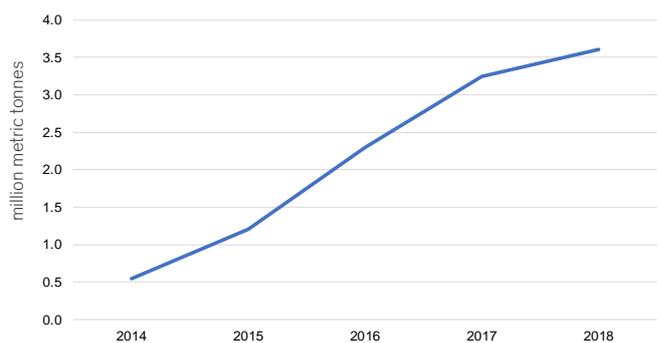
There is an undeniable opportunity for Australia to build on our economic partnership with Indonesia, and we look forward to seeing how the benefits unfold when the agreement comes into force, expected late 2019.

### Top five global wheat importers



Source: US Department Agriculture

### Russian and Ukraine combined wheat exports to Indonesia



Source: AgriCensus

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