The COVID-19 pandemic, and China’s recent decision to impose additional duties on barley from Australia, have stimulated considerable discussion about Australia’s place in global grains markets. Grain exports have been largely unaffected by COVID-19 and the sector has not experienced significant disruptions to supply chains. Negligible levels of domestic support have been, and will remain, the key to keeping Australian grains and oilseeds producers internationally competitive, resilient and responsive in the face of market shocks.

Grains are one of Australia’s largest agricultural sectors

Australian grains and oilseeds production is estimated to be worth $10 billion at the farm gate (2019–20), with wheat, barley and canola making up 92% of that value.

Those three crops are planted between April and June, and harvested from October in northern regions, through to January in southern regions (Figure 1).

**FIGURE 1** Grains and oilseeds are mostly grown in a belt from WA to Qld
Trade is a key part of the sector’s performance

Australia is a small grains producer globally. For example, wheat is Australia’s largest crop, yet accounts for just 3% of world production. However, despite being a relatively small producer, Australia has a significant presence in global markets (Figure 2).

FIGURE 2 Australia is a major global exporter of barley, canola and wheat

The trade in grains and oilseeds is worth an average of $9 billion a year. For wheat—Australia’s second largest agricultural export behind beef—trade is valued at around $5 billion.

In normal years, Australia’s grain production significantly exceeds domestic demand and producers take advantage of the larger market available through trade. In drought years, while domestic supplies are generally assured, exports get smaller. In these situations, imports help moderate domestic supply and price pressures, and allow the sector to focus on its highest value markets. While imports only occur at low levels due to cost (a factor of strict biosecurity protocols and intermittent imports), they act as a complement to the grain sector through helping sustain profitable domestic downstream sectors.

Negligible domestic support and open competition increase competitiveness

Negligible levels of domestic support and open competition amongst producers and supply chain participants keep Australian grain producers internationally competitive, resilient and responsive in the face of market shocks (Figure 3). These conditions also mean that Australian agricultural exporters work within World Trade Organization rules, contributing to open trade in agricultural markets.

FIGURE 3 Domestic support to barley and wheat in major exporters is low, and is zero in Australia

Note: Charts show 5-year average global export shares.
Source: USDA-FAS (2020).
Grain prices and production are largely unaffected by COVID-19

Agriculture's grain markets haven't been greatly affected by COVID-19, and there has been no attributable change in prices observed so far during the pandemic (Figure 4).

The harvest for this year's crop was completed in December 2019. Social distancing and isolation measures have had little impact on producers' ability to plant new crops, which started in April 2020. Due to a mostly favourable planting window, planting is now nearing completion. An update on production forecasts will be issued by ABARES in June in the Australian Crop Report.

Grain flows continuing normally

Grain exporters have been able to access international markets throughout the COVID-19 pandemic. Most grain freight is exported by sea in bulk carrier vessels. Bulk grain freight prices from March to May 2020 were lower than a year earlier (Figure 5), helped by lower oil prices.

Some grains (particularly pulses) are shipped via containers. Anecdotally, there were some container shortages caused by a backlog at Chinese ports in January and February. These backlogs appear to have largely cleared and container freight prices have now dropped below levels seen in early 2019.
Imports of inputs also continuing

Despite some early concerns about possible shortfalls in imported inputs as a result of the pandemic, overall imports of chemicals, fertilisers and stockfeed have been relatively unaffected. Between January and March 2020, imports of key inputs continued, albeit at a slower pace for some chemicals and fertilisers (Figure 6). Stockfeed imports have remained high, helping keep Australia’s downstream and export industries functioning smoothly.

**FIGURE 6** Imported inputs appear to have been relatively unaffected, Jan to March totals

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International policy interventions have been mostly repealed

In March and April 2020, a number of grain exporting countries introduced market interventions in response to perceived food security issues. These interventions are now being rolled back (Table 1).

**TABLE 1** Grain export restrictions are being removed

<table>
<thead>
<tr>
<th>Country</th>
<th>Commodity</th>
<th>Announced measure</th>
<th>Repeal status</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cambodia</td>
<td>Rice</td>
<td>From April—export ban (white and paddy rice)</td>
<td>Repealed, resumption from 20 May</td>
</tr>
<tr>
<td>Kazakhstan</td>
<td>Wheat and flour</td>
<td>From March—export ban then quota</td>
<td>Considering repeal, 21 May</td>
</tr>
<tr>
<td>Myanmar</td>
<td>Rice</td>
<td>From April—export ban</td>
<td>Repealed, resumption from May</td>
</tr>
<tr>
<td>Russia</td>
<td>Grains</td>
<td>From April—export quota</td>
<td>Expires 30 June</td>
</tr>
<tr>
<td>Vietnam</td>
<td>Rice</td>
<td>Export ban, then quota</td>
<td>Repealed, resumption from April</td>
</tr>
</tbody>
</table>

Note: Only a selection of export restrictions and commodities are shown.

Barley faces a new challenge

On 19 May 2020, China announced the imposition of a 73.6% anti-dumping duty, and a 6.9% countervailing duty on imports of Australian barley. Dumping occurs when “a company exports a product at a price lower than the price it normally charges on its own home market” (WTO 2020). Countervailing duties are imposed to correct for any advantage conferred by government subsidies.

In response to China’s decision, the Australian government stated “[Australian] barley producers operate in a competitive global market without any trade distorting subsidies and price their products in an entirely commercial way… We do not accept that there is a prima facie case, let alone a conclusive case, to find dumping by or subsidy of Australian producers” (Statement by Trade Minister, 20 May 2020).

Alternative markets exist for Australian producers

Australia’s high quality malting barley is preferred by Chinese manufacturers, who pay a premium for it. Despite that demand, the 80% tariff is expected to largely stop the trade.

Replacing Australian barley is likely to be difficult for Chinese manufacturers. This is because a large share of China’s imports come from Australia (around 59%), around half of the world market’s malting barley is supplied by Australia (International Grains Council, 2020b), and China requires over half of world malting barley imports to fill its consumption requirements (after accounting for local production). As such, the decision is expected to be costly for Chinese buyers.
For Australian barley exporters, alternative markets are available, and further options to increase exports will open up as other exporters (e.g. France, Ukraine, Canada, Argentina) divert trade to fill the gap left by Australia in China.

**FIGURE 7** Australia has diverse export destinations

![Australia has diverse export destinations](image)

Source: ABS, ABARES

Australia has market access to 59 destinations, including top 10 global markets such as Japan, Jordan, Kuwait and Saudi Arabia (Figure 8). We also have access to the emerging Asian markets of Indonesia, the Philippines, Thailand and Vietnam, which all provide duty free access under various free trade agreements. Australia also gained a 500,000 tonne duty free feed grain quota under the Indonesia-Australia Comprehensive Economic Partnership Agreement, and recently signed a biosecurity agreement with India relating to grains fumigation. The latter brings Australia a step closer to exporting malting barley to India.

**FIGURE 8** Australia has alternative barley markets

![Australia has alternative barley markets](image)

Note: Chart shows average import volumes over the 5 years to 2018–19 for the world’s top 10 importers over that period.

Source: USDA-FAS (2020)
Returns in alternative markets are expected to be lower

Australian export volumes of barley are unlikely to change significantly until late 2021, when the crop planted in autumn 2021 is harvested. The size of that crop is likely to reflect producers’ adaption to lower barley prices relative to other crops. In the meantime, export returns are expected to be lower given the loss of barley’s ‘China premium’ (Figure 9). In other words, alternative markets exist but returns are likely to be lower.

FIGURE 9 Barley prices have already dropped

![Graph showing barley prices](image)

Australia’s ‘China premium’ disappeared in anticipation of tariffs

Source: IGC.

Producers will likely change plantings in response to tariffs

Lower farmgate barley prices will drive a process of adjustment in which producers will respond to price incentives across all grains, with the aim of maximising their returns and managing their risk. A small number of producers may still have flexibility to shift away from barley for the 2020–21 winter cropping season, but it is likely that for the majority, production decisions and investments in this year’s barley crop have already been made. The main changes in production decisions are therefore expected next year.

A medium term shift to alternative production options will further reduce the overall loss in the gross value of agricultural production. Losses in barley revenues will be partly offset by gains in other commodities. Lower domestic barley prices will also provide cheaper feed costs to the livestock sector, potentially boosting its value of production. As a result, the potential losses to Australia’s total value of agricultural production are expected to be significantly less than the value of lost barley exports to China.

References


Trade Minister 2020, Statement by Trade Minister, Minister for Trade, Tourism and Investment, 20 May 2020.


