

**Market Report
on
Agribusiness
in
Australia**



Introduction

The economy of Australia is a developed, modern market economy with a GDP of approximately US\$ 1.23 trillion, with strong fundamentals. Its robust nature has helped it avoid the worst of the global financial crisis, without slipping into an economic recession. Australia's close business ties with Asian economies like China, Japan, South Korea, and India have provided the economic cushion to bolster its growth.

With a modern democratic system of governance, and sound legal and regulatory systems, Australia is a country where Indian businesses should feel comfortable in operating. However, the full potential of India-Australia business ties has not yet been achieved. The Australian economy offers a range of opportunities in the agribusiness sector for Indian companies to explore possibilities for joint ventures, acquisitions, or import-export relationships with the Australian market.

OVERVIEW OF AGRIBUSINESS INDUSTRY

The Agribusiness industry is highly diverse and a high-tech commercial industry centred on the business side of farming. It covers businesses operating as meat processors, grain wholesalers and agricultural machinery sellers right through to all different types of farming.

Large multinational companies are increasingly getting in on agribusiness activity. These corporations are encouraging vertical integration of the industry, and are actively increasing profitability of the industry as a whole. Family farms are still highly prevalent across the nation; however, the revenue generated by corporate farms is substantially higher than traditional family farms.

INDUSTRY OUTLOOK

One of the biggest obstacles to industry growth over the last year has been the impact of adverse weather patterns across Queensland and Victoria in 2010-11. The longer term outlook for the Agribusiness industry is optimistic, although the near term will be largely concerned with rebuilding damage caused by floods and cyclones. The industry is set to remain volatile over the coming years. Export markets will continue to be major growth areas for domestic produce with the key markets being **South Korea, Japan, China, India** and the **United States**. The **withdrawal of Russia** from the **world wheat trade** certainly emphasised the need for Australian exports. Drought in Russia forced their government to ban exports out of fear of maintaining supply for domestic demand. Russia at the time was the world's second-largest wheat trader. **Livestock** and other **farm supplies** wholesaling will remain the biggest segment in the Agribusiness industry.

Industry revenue is expected to grow just **0.9%** in 2011-12 as farmers and operators will be largely concerned with rebuilding damage caused by floods and cyclones. Over the next five years, the Agribusiness industry is expected to record revenue growth at an annualised rate of **2.2%** to reach **\$234.6 billion** in **2016-17**. Increases in prices and output will help fuel growth for the industry. Livestock and other farm supplies wholesaling will remain the biggest segment in the Agribusiness industry and the presence of larger corporations will rise due to the increasing prevalence of contract farming.

Revenue will be promoted by moderate growth in real prices while output grows slower. Global demand conditions are expected to improve slowly over the coming years, which will have a positive effect on revenue. However, these are expected to be partly offset by an appreciation of the Australian dollar, which will reduce the affordability of Australian

exports. The increased use of contract farming will enable larger corporations to share in the higher profits to be made from agricultural commodities. Contract farming is the natural progression for corporations seeking to have a greater presence in direct farming activities. The increasing business focus of family farms is helping big businesses increase their farming operations as it is now easier to track the financial history and success of farms. IBISWorld envisages that this type of farming will increase wages in the industry and shift profits toward larger, vertically-integrated companies.

KEY EXTERNAL DRIVERS

Realised farm income

Realised farm incomes have a dramatic effect on the Agribusiness industry, and are a main driver for farm spending. The level of realised farm income indicates how much this income will multiply through to the wider Agribusiness industry, and from there through to the Australian economy.

Value of merchandise trade exports

Many agricultural commodities depend on trade and world markets. Australian farms depend on exports as a means of selling their produce to valuable markets in Europe, Asia and the United States. The Agribusiness industry also imports many goods and services required to enhance efficiency and provide for shortfalls in commodities in years where yields are lower.

World demand for meat

Meat-based agribusinesses make up a significant proportion of Australia's Agribusiness industry with about a 25% of revenue. As a result, world demand for meat is a strong driver for the industry.

Natural disasters

In Australia, the most prevalent natural disasters are prolonged droughts. Weather conditions play an important role in determining crop yields and therefore production levels across all agricultural industries. Drought has characterised much of the last decade. This has resulted in crop failures in some years, putting increased financial pressure on farmers. Poor pastures, particularly in 2006-07, caused many livestock producers to reduce herd numbers. This has depressed domestic livestock prices over a short period, as more animals were sent to the slaughter yards, increasing domestic meat supply. Favourable weather patterns will lift crop yields. The opposite is true when weather conditions are extreme.

Since late calendar 2008, growing conditions have improved in much of Australia. While much of southern and eastern Victoria remains characterised by drought conditions, rain in other regions has been more typical of historical levels. Nevertheless, water scarcity remains a significant concern, particularly for farmers in irrigation areas fed by the Murray Darling basin. Irrigators toward the end of this system, mostly in South Australia, face significant water constraints.

FOOD AND FUEL

Demand for higher **protein food** from **developing nations** drove prices of **meat** and **livestock feed** over the last **five years**. Increased demand for dairy products was a notable feature of the industry. Growing demand for this food was due to increased affluence in developing nations, **particularly China and India**. A growing proportion of

the population could afford **high-protein foods** and switched to them. This increased global demand for high-protein foods, in turn stimulated demand for livestock feed. The situation has at least been partly reversed by the global financial crisis. The growing middle class in developing nations (*like in other nations*) is expected to have taken a step down on the prosperity scale. Despite lower prices, **meat** and **dairy** products are now less affordable to a large proportion of the global population. World meat and dairy prices declined steeply in late 2008, and are expected to only recover slowly over subsequent years.

While partly driven by increased demand for food, the soft commodities boom was also driven by increased **utilisation of food and feedstock in biofuel production**. Government policies in the **United States** and **European Union** to drive biofuel production resulted in an increasing proportion of soybean, corn and canola crops being diverted from food and feed uses. This drove up prices of these and alternative grains and oilseeds. In addition, speculation also contributed to record high prices. The situation was reversed as the financial crisis hit and biofuel producers reduced demand for grains and oilseeds. This was due to changes in the relative prices of crude oil and alternative fuels. The strong decline in the price of crude oil caused a similar drop in the willingness of biofuel producers to purchase crops to use in biofuel production. In the face of weaker global aggregate demand, demand for all energy products fell sharply. In addition, speculative demand for commodity contracts, which had driven up the prices, dropped off. This caused prices to decline strongly in late calendar 2008. Unlike meat and dairy, however, demand for grains and oilseeds is expected to be more resilient, as population growth and reduced grain stocks provide underlying demand for these staple products.

PRODUCTION VOLUMES

Agricultural output volumes are expected to **increase** despite growing concerns over water availability. This will be in line with historical experience, which has seen agricultural output trend upward despite drought conditions. This has been facilitated by **improvements** in farm **productivity**, better **irrigation** technologies, increased utilisation of **precision agriculture** and advances in **undercover horticulture** (*growing fruit and vegetables under cover*). Improvements in productivity will also contribute positively to profit growth. Another source of increased productivity will be increased adoption of genetically modified (GM) technology in canola production. When GM cotton was approved for production in Australia, its use increased rapidly, and the same is expected to occur for canola plantings.

Sellers of agricultural inputs will also benefit from increased production volumes and the moderate increase in prices. This will be facilitated by increased **corporatisation** of farming, which will see producers try to lift yields per hectare by increasing use of other farm inputs. Adoption of new technologies and different farming practices will also see revenue of farm input sellers increase. As farms change their production practices, they will need to purchase new capital equipment. An example of this is horticulture, where increased use of greenhouses rather than field production has seen yields, quality and product consistency increase. This trend is expected to continue in horticulture, while other farming practices will change as accepted farming best practice changes. Irrigation equipment will be focused on making the most of scarce water. In addition, increased use of GM seeds in producing canola will see demand for these oilseed producers shift toward more sophisticated seeds, and facilitate a reduction in their dependence on herbicides and pesticides.

BIG BUSINESS

The **corporatisation** of Australian agribusiness is expected to continue over the next five years. Grain wholesalers are expected to increasingly benefit from their ability to **export wheat**, and **tight export regulations** may be **relaxed** into the future. The presence of multinational corporations in agribusiness will continue to increase as the benefits of vertical integration attract greater investment. A smaller proportion of farms will account for a greater proportion of farm output as a result of this continued corporatisation of farming and the supply chain. Despite the **global credit crisis**, **international investors** are expected to be prominent in **Australian agribusiness** over the **next five years**. **Strong potential returns** will lure institutional and international investors as **demand** for soft commodities and **food** across the globe continues to grow. **Beef** and **grains** will be the focal point for these investors, who are expected to come under increasing scrutiny from the Foreign Investment Review Board as their influence on Australian agriculture increases.

PRODUCTS & SERVICES

Products and services provided by agricultural businesses can be segmented by food or product group. The size of each segment is calculated according to each product's total value within Australia. Therefore, the sum of all segments will be equal to total revenue generated by the industry. Each group incorporates all stages along the supply chain before retail. Commonly this will include the value generated from primary production, processing, manufacturing and wholesaling.

Fruit and vegetables

The size of the fruit and vegetable segment is largely a consequence of the low per-unit value of produce. Though relatively small in the scope of all agriculture business, any change in this segment could potentially have implications for a large number of operators. This segment is highly fragmented with many operators working in different areas ranging from the primary producers on the land, to processors and value adders, right through to liquor wholesalers. For many fruit and vegetables, the major market destinations are processing or fresh sales. The processing market is becoming increasingly large as businesses continue to find new ways to value-add this produce. However, this presents two principal issues for primary producers: the prices achieved from downstream processors are generally much lower than what could be achieved on the fresh market; and processors have the ability to source more imported produce. Grapes are an exception to this fresh versus processing segmentation. Overall, this segment has grown at a fairly conservative rate over the last five years.

Grains and meat

All industries that are directly influenced by grain production have been on a rollercoaster ride over the last decade. In the past five years, the average rate of growth for this segment has been 6.8% per annum, but this rate can only be used to show the rate of recovery from the low base it fell to after the drought declared from 2002-03 onward. Indeed, this segment is the most volatile of the industry. Given the nature of the product and the relative ease of transportation, products like flour can easily be imported, which increases competition for local producers. For this reason, the performance of downstream manufacturing industries like bread, biscuit or sugar manufacturers, are insulated from large fluctuations in primary grain growing. Most grains produced are exported and Australia is a global major player in grain exports particularly wheat. Australia is the fourth-largest exporter of wheat in world.

The meat segment includes farming livestock and poultry, and is largely represented by farming beef, lamb, pork, chicken and duck. Each segment also holds a large number of downstream potential markets, whether the meat is sold directly to butchers or to processors and manufacturers for value-adding. For example, strong consumer demand for convenience foods has increased processor demand for beef and chicken in particular. For farmers to achieve the highest price margins, they will try to create a quality product for sale on the fresh market. However, pig meat has a particularly high share of production going to processors, given the size of downstream bacon and ham product markets. This segment has been growing at a fairly solid rate over the last five years.

OTHER AGRIBUSINESS

The dairy segment is certainly growing. Its performance has been underpinned by increased uptake and demand from eastern cultures domestically and abroad. In the past five years, the segment has averaged growth of 3.7% per annum. However, this has not been without some volatility with high dependency on export markets also meaning the segment is subject to global trends. Exchange rates and instability in some eastern countries have influenced overall industry performance. Egg production has become varied in its approach to supplying the market; operators can provide organic, free range or battery eggs. There is both mass production and economies of scale achieved in each egg market. However, no one egg variety segment is really insulated from changes in input costs. For example, 60% of all chicken feed is corn, and changes in corn prices will alter the cost structure for all operators.

The fibres segment refers to revenue generated from the production and processing of wool, cotton and leather products. Downstream, the industries that are reliant on the performance of fibre and leather production are textile manufacturers, knitting mills, and apparel manufacturers and wholesalers. Australia has been reduced to a niche supplier of apparel, with large-scale production declining as a result of cheaper imports. Without substantial demand from downstream industries, it is becoming increasingly difficult to fund the large water requirements needed for crop production.

INTERNATIONAL TRADE

Imports of agribusiness products are considered to be at a low level, accounting for **4%** of domestic demand. Exports are also at a medium level, accounting for **12%** of industry revenue. **Australia is a net exporter of fruit and vegetables.** Exports make up quite a small percentage of industry revenue for many produce sectors. Therefore, although exports in primary produce industries may decline slightly due to extreme weather patterns, the affect on industry growth is likely to be negligible.

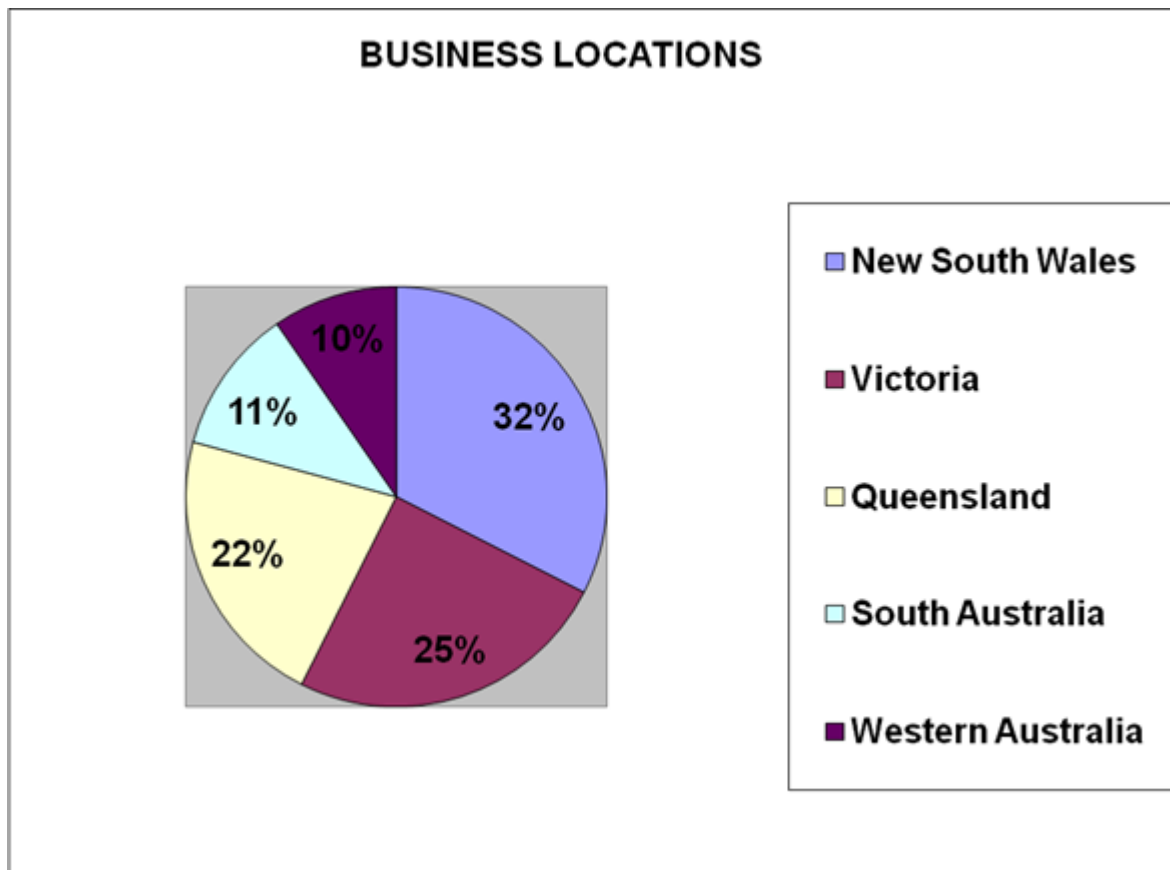
TRADE BARRIERS

Another important factor affecting **international trade** in agribusiness is **government assistance** given to farmers across the developed world. Trade barriers provide protection to agriculture producers and the result is downside price risks, commodity dumping and unfair trading from international trading partners. However, Australian trade barriers offer protection to the local industry by restricting international access to some markets. **Free trade agreements (FTA)** are becoming an increasingly important focus for the Australian Government in order to bypass trade restrictions and open new markets for Australian exporters. Australia is currently a signatory to, or in discussions with, a number of countries to establish free trade agreements. The Department of Foreign Affairs and Trade has announced the intention to develop the **Trans-Pacific Partnership Agreement (TPP)**, which is an **FTA involving Australia, the United States, Chile, New Zealand, Singapore, Brunei and Peru.** This agreement will allow

Australian exporters better access to these markets as a destination for their goods and produce.

BUSINESS LOCATIONS

New South Wales – 31.4%
Victoria – 24.1%
Queensland – 21%
South Australia – 10.8%
Western Australia – 9.3%
Northern Territory – 0.4%
Australian Capital Territory – 0.1%



BARRIERS TO ENTRY

Overall, there are **few barriers** to entry for those looking to enter the Agribusiness industry. There are **many different levels** in which to **participate** in the industry such as **farming, manufacturing and processing, wholesaling, and direct retailing**. The highest barriers to entry exist in those segments that deal **directly** with the **handling and processing of food**, particularly **meat** and other **hygiene-sensitive products**. These segments are regulated by governments to create uniform standards for the processing of **food and perishable goods**. The various regulatory authorities have the ability to refuse entry to operators who do not meet the standards set by the relevant regulations.

Those looking to enter the industry by farming are **required to purchase** suitable **land** for their chosen commodity. They are also required to purchase **infrastructure** and **machinery** to assist with the **farm's operation**. Tractors and other agricultural machinery are common requirements for most farms. The need for land and equipment

is not incredibly onerous for potential entrants as **finance** is **available**. The availability of **skilled labour** is required for **larger farming operations**.

INDUSTRY GLOBALISATION

The Agribusiness industry is becoming increasingly globalised. As food manufacturers and supermarkets try to drive down costs and ensure an ongoing supply of produce, grains, fruit and vegetables are sourced from the cheapest producers. **International companies** have begun investing heavily in **Australian** agribusinesses despite the high Australian dollar. This has been the cause of the global food price boom experienced since 2007. The credit crisis dampened the enthusiasm of some international investors. Agricultural globalisation is hampered by subsidies and tariffs, which give some overseas producers an artificial competitive advantage and limit the profitability of trade. The World Trade Organization is working toward the removal of trade restrictions, but the failure of the recent Doha round of negotiations has shown there is little hope for a resolution over the medium-term.

The emergence of globalisation as a force in agribusiness is forcing operators to become more competitive, and to rely less on subsidies and tariffs for protection at farm level. Cheaper imports are also being seen in the farm supplies and machinery segments of the industry. **China** is a major source of **cheaper goods** coming into the Australian market, although local consumers often prefer Australia-sourced produce thanks to marketing efforts of the Made in Australia brand. Tighter economic conditions have led to an increase in pure price-based decisions by consumers. This will result in an increase in the consumption of cheaper imports, although these goods are expected to become more expensive as the strength of the Australian dollar falls. The growing importation of goods into the country will present opportunities to foreign companies to increase their presence in Australia, thus increasing the influence of globalisation on the industry.

HOW TO DO BUSINESS IN AUSTRALIA?

Australia is an open economy with a liberal foreign investment outlook. The country has many international companies holding assets in the country and operating without much of a hindrance from the government. The regulatory body overseeing foreign investments in Australia is the Foreign Investment Review Board (FIRB). More detailed information on foreign investments can be accessed at FIRB: www.firb.gov.au

Company Registration:

A company can apply with the Australian Business Registrar to obtain the Australian Business Number (ABN) and all companies which are to be registered with ASIC (Australian Securities and Investment Commission) would get a Australian Company Number (ACN). Further information about ABN can be obtained from: <https://abr.gov.au/> Further information about ACN can be obtained from: <http://www ASIC.gov.au/ASIC/ASIC.nsf/byheadline/Australian+Company+Numbers?opendocument>

Further information on doing business in Australia is available at:

ClatonUtz - http://www.claytonutz.com/docs/DBIA_English.pdf

GrantThornton - http://www.grantthornton.com.au/files/doing_business_in_australia.pdf

Government of Australia - www.business.gov.au

FOREIGN INVESTMENT IN AUSTRALIAN AGRICULTURE

A Citigroup analyst identified more than \$12 billion worth of direct overseas investment in agricultural businesses and land in the past four years. The deals spanned the breadth of the country and agricultural sectors, from the Packer cattle properties (\$425 million by US private equity firm Terra Firma) to \$1.75 billion sale

of Sucrogen to Singapore's Wilmar. \$20 million worth Murray Darling basin water licenses sold to California's Summit Global Management. Australia was providing investors with "high quality production assets, relaxed government regulations, significant export surplus, favourable fundamentals and proximity to Asia"

Foreign demand has helped support asset prices, with transaction multiples at attractive premiums to trading multiples. Citi estimates the average purchase price is nine times the companies' earnings. The average land value per hectare has risen from \$120 in 1994 to about \$510 in 2010.

Swiss bankers Daniel Koppel and Walter Wehrli are behind a string of farm purchases in southern NSW, their companies parting with \$8 million. Macquarie Group's wholesale fund, Paraway Pastoral, spent \$80 million buying a quarter of a million hectares, launched in 2007 the fund aims to raise up to \$1 billion to tap into world demand for red meat. It is a dominant landowner and counts sheep and cattle in the hundreds of thousands. Brazil's JBS, the world's largest meat company added 1800 hectares through a \$17 million acquisition in Leeton area.

Cargill has its fingers in the market, with its subsidiary, Black River Asset Management, buying 2100 hectares in the Bland shire for \$4.7 million. Foreign pension funds have continued to show interest in crops and forestry.

Some of the major investments are outlined below:

Paraway Pastoral Co. Ltd: Biggest rural land investor in NSW last year, the operating entity of the Macquarie Pastoral Fund. It has bought 3 million hectares in Australia and can run 200,000 cattle and 200,000 sheep.

Purchases: \$80.12 million; Area: 223,795 hectares;
Where: Murrumbidgee, Hay and Warren

Hassad Australia Pty Ltd.: Hassad Food, the agricultural arm of **Qatari** sovereign wealth fund is investing throughout the world to achieve food security for the Gulf states.

Ho Myoung Farm: Owned by the **Korean** Young An group, the self made corporation of billionaire businessman and philanthropist Baik Sung-hak. Goat, sheep and cattle for domestic and export markets.

Purchases: \$35.77 million; Area: 11,800 hectares;
Where: Cabonne and Warren.

IAI Australia Fund II: The International Agricultural Investors fund, run by Australian subsidiary of **US** Westchester Group, is a booming vehicle for international pension funds. The **Swedish National Pension Fund** will place \$240 million in a joint venture to buy and manage farmland in Australia with the Teachers Insurance and Annuity Association of America.

Purchases: \$2.7 million; Area: 178,576 hectares;
Where: Bourke and Central Darling.

The Trust Company Australia: Purchases on behalf of **Canadian** government pension fund Alberta Investment Management Corp, which manages \$70 bn. in public sector funds.

Purchases: \$16.65 million; Area: 4379 hectares;
Where: Moree Plains, Gunnedah, Warren.

Walnuts Australia Pty Ltd: a wholly owned subsidiary of ASX listed company Webster Limited. Latest purchase from Gunns of walnut orchards cements its position as largest manager in southern hemisphere of walnut orchards.

Purchases: \$20.5 million; Area: 1668 hectares; Where: Carrathool

Swift Australia: Wholly owned subsidiary of **Brazilian** multinational JBS, the world's largest meat producing company, market capitalization of U\$10.3 billion
Purchases: \$17.15 million; Area: 1876 hectares; Where: Leeton

Australian Farms Fund Management Pty. Ltd.: Trustee and manager for the Sustainable Agriculture Fund; Australian education, church and coal superannuation funds.

Purchases: \$13.18 million; Area: 1156 hectares;
Where: Murrumbidgee

SCOPE FOR INDIAN COMPANIES

The implementation of **Food Security Bill** in India is not only drawing national, but also international interest. During the deliberations of the **International Grains Conference** in **2010** held at Perth, Western Australia, the panellists pointed to the Food Security Bill in India and its implications on the global prices of grains. The rising price of food, fruits and vegetables in India, point to the need to increased **productivity, efficient warehousing** and ensuring adequate food security.

Australia is an open and liberal economy offering a stable investment climate for foreign companies. Its track record of exports of agriculture produce all over the world makes it an attractive destination for Indian companies to invest in the agribusiness sector in Australia. Indian companies engaged in latest processes and techniques for treatment, warehousing and distribution would benefit a great deal by purchasing agricultural holdings in Australia. This would ensure that the company can export the produce from Australia to India. During 2009 – 2010 the export figures of agricultural products from Australia to India are as follows:

Vegetables (f.c.f.*)

India: A\$172.4 million

Fruits & nuts

India: A\$43 million

Wheat

India: 238,886 tonnes

The imports from India during the same period is as follows:

Cereals

Australia: A\$14.4 million

Vegetables & fruit: A\$24 million

**f.c.f – fresh, chilled or frozen*

The consolidation of smaller holdings to larger holdings by corporate companies is common practice in Australia. There have been aggressive acquisitions of agricultural holdings by U.S., European and Japanese companies in Australia. The foreign investment by various countries in Australia for the sector - Agriculture, Forestry & Fisheries for 2009 – 10 are outlined below:

U.S. A\$659 million

Malaysia A\$499 million

U.K. A\$322 million

Singapore A\$320 million

Japan A\$150 million

According to Price Waterhouse Coopers Australia, a large **Chinese** agricultural company visited Australia to purchase upto 200,000 hectares.

There is immense scope for Indian companies to engage in **corporate farming**, and is the most common way corporations take ownership in farms. Under contract farming, larger businesses enter into contracts with farmers to operate farms they own. These contracts feature base salaries and performance bonuses based on the yield achieved in any given year. Farmers are using these contracts to transfer the risk of farming to corporations, and in return are taking home guaranteed wages and large sums of capital from the sale of farms to companies. Concentration in the industry is expected to increase in the next five years, although it will not reach a medium level of concentration. The diverse nature of farms and farming operations means that the industry is unlikely ever to reach medium concentration.

The prospect of Indian exports to Australia of fresh fruits and vegetables is an uphill task at the moment due to the phytosanitary measures. Australia has very strict phytosanitary regulations which make it very difficult for India to export its produce to Australia. The move to set up a Biosecurity Authority in India is a positive step in the process and it is advisable to engage with Biosecurity Australia for the implementation of measures and processes which would bring in international standards to the Biosecurity apparatus in India. This would also enable mutual recognition agreements between India and Australia and many other developed economies like Britain, Japan, France etc. where food standards are high and processes for the treatment of food/ agricultural produce are to be verified.

TARGET AUDIENCE:

Department of Agriculture & Co-operation
Food Corporation of India

CII

FICCI

Indo Australian Chamber of Commerce

EXIM Bank

APEDA

ABT Industries Shakti Group

THE SAKTHI GROUP

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Some Useful Links:

Agribusiness Association of Australia - www.agribusiness.asn.au

Austrade Agribusiness Foreign Investment profile -
<http://www.austrade.gov.au/Invest/Opportunities-by-Sector/Agribusiness/default.aspx>

Australian Agribusiness Group - <http://www.ausagrigrp.com.au/>

Pricewaterhouse Coopers Australia - <http://www.pwc.com.au/industry/agribusiness/>

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