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THE PERFECT BOOM

Having survived a record drought, many farms are headed for an epic recovery, writes Rural Reporter ASA Wahlquist

NOBODY'S taking anything for granted but it looks like becoming a year to celebrate for Australian grain growers. Wheat prices are extraordinarily high and, if the season goes well, there will be a record crop. Australian agriculture is undergoing its profoundest change in modern times. Rising demand for food, less arable land across the world, competition for crops to use as food and fuel, and climate change are remaking our farm sector's future.

It's heady stuff after years of drought and loss. The stakes are high: for many farmers, after a run of poor years and increasing indebtedness, 2008 will be the last roll of the dice.

About 70 per cent of Australian farm produce is exported, so rising international prices affect grain and dairy income in particular. In a freer market, farmers are set to cash in. Twenty years ago, most grains were vested in, or essentially owned by, state bodies. This year, AWB's monopoly export over wheat will end and farmers will be selling into a deregulated market.

Australian Farm Institute executive director Mick Keogh says Australian farmers, long used to having to accept prices, are surprised to find they are being courted by eager purchasers. He says this is not just a blip due to drought or the switch internationally to growing crops for biofuels. He points out the former cost-price squeeze -- a simultaneous rise in farm costs and fall in commodity prices -- that forced grain farmers' real export incomes downward since the 1960s has turned around.

In six of the past seven years, demand for wheat has outstripped supply. Last year supply sank to a 30-year low after nearly every important grain-growing area of the world experienced a reduced crop due to climate damage. Australia had two severe droughts back to back, something not seen since the '40s.

The result is that the balance is tipping in favour of grain producers. Keogh says the International Monetary Fund's index of global food prices shows a trend "that started around the year 2000 and strengthened spectacularly in the last 18 months of escalating global food prices".

So much, for so many of our farmers, hangs on this year's grain crop. After up to 10 dry years, this will make or break it for many. Ron Storey, from Australian

Crop Forecasters, says this year is probably the best as far as price outlook is concerned.

“Provided we get a normal, if one can define that any more, seasonal break (autumn rain) then we would expect the farmers to plant a lot of area,” Storey says.

The Australian Bureau of Agricultural and Resource Economics is forecasting a record-breaking 25.950 million tonne wheat crop, provided there is an average season, with a gross value of \$8.6 billion. To put that in perspective, the Australian Bureau of Statistics estimates the 2006-07 drought cut agricultural production by 10 per cent or \$3.6 billion. Wheat suffered the biggest fall, of 51 per cent, to \$2.5 billion. Whatever the season brings, 2008 will be a year when so much changes.

“I think we are going to see a whole lot of resetting,” National Farmers Federation president David Crombie says. The trend to fewer farming enterprises will continue. There is no doubt there will be a lot of land for sale, if the season goes well and a lot of cashed-up farmers look to expand their operations.

Farm numbers have decreased 20 per cent since the previous big drought in 1994. Keogh observes most sold when the drought was over and commodity prices and rural land values were high. He believes a big crop soon will give older farmers the option to sell and retire, and those wanting to invest and expand the opportunity to do so. “Sure, that means community change and it might mean some consolidation, but at the same time it is bringing capital and investment and new ideas into the sector,” Keogh says.

Meanwhile, the boom is on. Last week AWB offered \$400 to \$420 a tonne for its benchmark Australian premium white wheat in the coming season. Keogh points out that not long ago the price was \$150 to \$180 a tonne. “Most of the forecasters suggest they can see this level of demand being maintained for much of the next decade,” he says.

The Westpac-National commodity index has surged 26 per cent in the past year. According to the index, the price for wheat has risen 85 per cent in 12 months, canola 72 per cent, dairy 29 per cent and export beef 3 per cent, in Australian dollars. But the relatively high Australian dollar to some extent is masking the strength of the rise, which in US dollars is 47 per cent above the past year.

This international trend may be a surprise to local consumers, although they shouldn't assume the relatively low cost of food here will continue. Tim Hunt, senior dairy and food retail analyst with Dutch agribusiness specialist Rabobank, says Australians pay proportionately less for food than many others, adding people in nations such as Vietnam and The Philippines spend 45 per cent to 50 per cent of their household budget on food. Last year, according to the ABS, our

food prices rose only 1.2 per cent, less than official inflation. The proportion of the Australian household budget spent on food has fallen from 20 per cent to 17 per cent in the past five years.

That's because Australia, as a surplus food producer, has had no severe shortages, the dollar is high, there's vigorous competition between supermarkets and Australians buy a lot of processed foods so raw agricultural commodities comprise less of the end product. But more consumer rises may be on the way locally.

"I think in many product categories we will see further price rises passed on as costs are passed down the supply chain and manufacturers look to rebuild margins that have been squeezed in recent months," Hunt says.

Then there is global competition for our products, affecting what Australians will have to pay. Prices overseas have soared due to shortages. There have been riots in Mexico over the rising cost of the corn used to make that staple, the tortilla, while Italy has had a "no pasta" boycott day to protest against its cost. Other countries, including Argentina, India and Russia, have put restrictions on food exports to help their consumers.

Agribusiness Futuris chief executive Les Wozniczka warned late last year: "Prepare yourself for some serious inflation in your cost of living because globally we are seeing pricing power starting to return to farmers. Unless recovery of input costs comes through in higher prices, farmers are increasingly refusing to produce or converting to alternative products such as ethanol and biofuel."

Woolworths chief executive Michael Luscombe agrees that food inflation is likely to continue internationally. "I think it's going to be with us for a couple of years, particularly if the globe's thirst for biofuels continues," Luscombe says.

In the '60s, the so-called green revolution in farm technology and disease prevention resulted in a two to threefold increase in agricultural production. High subsidies paid to farmers in the US, European Union and Japan gave us a world oversupplied with food in the '80s and '90s, depressing world commodity prices.

But the stockpiles of grain and butter mountains have gone. Subsidies instead are aimed at petrol substitutes such as ethanol, and biodiesel, with a different influence on prices.

Crombie shares the optimism. He says: "Grain growers have long considered that their prices have been lagging and it is great news that the prices are up." He says the biggest single factor is probably the mandated ethanol policy in the US.

“But the real boom is not so much as a consequence of American policy decisions on ethanol. The real opportunities are going to be in North Asia, where we are going to see massive changes in the structure of the economies, with increased purchasing power and a change in demand. There is a population increase occurring in Asia and at the same time you have the Asian economies growing by 7 to 10 per cent.”

Every year about 30 million Chinese move from being a poor peasant to an urban dweller. The move to the city means a change in diet, with urban dwellers eating three times more protein. Keogh says increased demand for animal protein brings an even higher demand for grain.

“Basically a kilogram of animal protein uses between two and eight times the same volume of grain to produce,” he says. One kilogram of beef takes up to 7kg of grain, one litre of milk needs 2kg, while pork and poultry need 1.5kg to 2kg of grain.

At the same time the Chinese population wants more grain, their agricultural land is going under tar and cement. The big news this week in world food circles is a US Department of Agriculture report that states less corn but more wheat and soybeans will be planted in the US this year. Corn prices have jumped and wheat prices have slipped from their record levels but remain very high.

The US is by far the biggest wheat marketer in the world.

Luke Chandler, senior commodity analyst with Rabobank, says there has been “a battle for acres” between corn, wheat and soybeans. Even though wheat plantings are up, Chandler argues corn and wheat stocks will remain tight for years to come: “That is going to continue to help support these commodity prices through the next couple of seasons at least.”

The food v fuel debate has been ferocious in the US and the EU. Critics argue it has pushed up the price of food, depriving the poor. The World Food Program, an agency of the UN, has requested an increase in funding to meet a price-induced \$US500 million (\$547 million) shortfall so it can supply its programs to feed 73million people.

Deborah O'Connell, of the CSIRO's Sustainable Ecosystems, says the food v fuel debate has no traction in Australia. “The reason we don't see it is because the ethanol and biodiesel industries are very small,” O'Connell says. “They are less than 0.5 per cent of our total transport requirements and they are mostly based on products (that) are waste products from other processes.”

Crombie thinks farmers will become focused on what he calls the three Cs: climate, carbon and consumers. He says there will be big demands on farmers to be water efficient, to manage carbon use and to be accredited as

environmentally responsible. Strong commodity prices will go a long way to enabling farmers meeting those demands.

“The farmer of the future is going to be different,” Crombie says.

GOLDEN GLOW: Changing fortunes of our wheat farmers

	Wheat Price Per Tonne*	Value of Wheat Crop
1990-91	\$132	-
1991-92	\$200	-
1992-93	\$166	-
1993-94	\$174	-
1994-95	\$237	-
1995-96	\$261	-
1996-97	\$213.	\$4.8bn
1997-98	\$198	\$3.7bn
1998-99	\$187	\$3.9bn
1999-2000	\$195	\$4.5bn
2000-01	\$232	\$5.1bn
2001-02	\$262	\$6.3bn
2002-03	\$266	\$2.7bn
2003-04	\$216	\$5.6bn
2004-05	\$197	\$4.1bn
2005-06	\$206	\$4.3bn
2006-07	\$237	\$2.5bn
2007-08	\$377	\$4.9bn
2008-09**	\$333	\$8.6bn

* Average across all grades of wheat ** Forecast
Source: ABARE

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