

Farmers Caught in Catch-22

Agriculture A productivity crisis could prevent Australia from capitalising on the Asian food boom, writes Andrew Clark.

The new "mining boom" - a forecast \$2 trillion bonanza in Australian farm exports to middle class Asians - could turn into a mirage. Amid these dizzy predictions is an Australian agriculture industry that is pressed by competitors, like Brazil, and sagging productivity.

It is also squeezed by supermarket chains that are forcing down prices and boycotted by a \$1.5 trillion superannuation funds industry that could provide it with much-needed capital.

At the same time, myopic managerialism in Australian universities is undermining the development of agriculture's future skills base - a precondition for any successful response to the Asian food challenge.

The nub of the problem is that the indus-

try needs a long-term view but is hobbled by the Australian preference for the short-term grab.

More intangibly, the deep psychological scars exacted by the decade-long drought make it hard for many to believe in a rich agricultural future or that salad days can return for those on the land.

"Agriculture is about playing poker with God," says farming consultant **David McKinna**.

Farming underwrote our emergence as an affluent country, with the nation riding on the sheep's back. During the past 50 years, however, Australian agriculture has been eclipsed by mining and ravaged by plunging prices.

Now it could re-emerge and renew some of the confidence that a flourishing farm sector traditionally gives to suburban Austral-

ians. "There's a pot of gold at the end of the rainbow but you have to work hard to get it," says McKinna.

For Australia to capitalise on the opportunities requires a more sophisticated, heavily capitalised, more productive, more efficient, more export-oriented, more skilled and more entrepreneurial farming sector.

Doug Shears, Australia's most successful producer of value-added agricultural goods, cautions that the perceived opportunities might not even exist to the extent often imagined.

The founder of Uncle Toby's Oats, developer of the Berrri fruit juice brand and exporter of processed herbs, dairy and beef products is sceptical about demand from Asia transforming Australian farming.

"Is Asia suffering from a likelihood of a shortage of food? Where is all this food demand going to come from?" Shears asks. "Thailand is a food exporter. Malaysia is a food exporter. The Philippines is a food exporter. China is a major exporter of food products.

"Probably the most relevant are Japan and Korea. Their production areas are limited but they're very fussy about where they'll import from. They have a long history of imports from Australia but also globally."

Despite this scepticism, farm boom talks thick on the ground. Earlier this month **Visy Industries** boss **Anthony Pratt** extrapolated on forecasts that the Asian middle class will explode from 500 million to three billion people by the middle of this century to predict that Australian farm exports could quadruple.

During the same four decade period, **ANZ Banking Group** and consultancy firm **Port Jackson Partners** forecast Australia could capture up to \$1.7 trillion in new farm export revenue if it seized the opportunity of booming demand for high quality, safe food.

On Friday, the board of **Graincorp** said it would back a \$3.4 billion takeover offer from US food producer **Archer Daniels Midland (ADM)**, after previously rejecting two offers from it.

"Should the offer proceed, the addition of GrainCorp to our global network would fit our strategy and help to further connect Australia's growers with growing," said ADM in a statement.

World food demand is expected to rise by 77 per cent by 2050 and "most of this growth will occur in Asia where demand will dou-

ble," according to a government white paper.

Australia's food sector "has strong prospects over the long term, given our proximity to Asia, and our strengths in key growth commodities like beef, wheat, dairy products, sheep meat and sugar," the paper says. However, "there's no sign of that happening yet," McKinna cautions.

The Australian Farm Institute also warns drastic improvements in productivity are needed on the farm and in food processing plants for Australia to remain competitive. This is because of the emergence of "major new agricultural exporting nations that have a much richer natural resource base and much lower cost structures than Australian agricultural businesses".

"A need for higher productivity in food processing may be recognised but what is less clear is how that productivity growth might be achieved," says the AFI.

According to its head, **Mick Keogh**, the Australian food processing industry has been "hollowed out" through the high dollar, high wages and intense price pressure from the major supermarkets.

"Put those three together and it's not a happy place for food manufacturing. What can we do about that? Not a great deal."

Government's Bureau of Agricultural and Resource Economics and Sciences (ABARES) also warned that Australian farmers will fail to cash in on growing Asian demand unless productivity improves and there is a significant shift in how Australian produce is marketed overseas.

ABARES executive director **Paul Morris** said the high dollar and tough global economic conditions mean a challenging future for Australian farming.

Longer term, the outlook is equally uncertain as Australian farmers are unable to compete on price with low-cost producers in countries such as Brazil and India.

"The key point that has been overlooked," according to Shears, "is that agri-trade has been globalised over the past 25 years. All the major corporations participating in the food industry are global: they source their products from all over the world and they'll go to the cheapest source."

Casting further doubt on predictions that rising demand from a growing population will generate an Australian farm boom, ABARES says global food prices will barely change in real terms by 2050.

Farming is facing a host of challenges even while demand continues to grow.
PHOTO: GLENN HUNT

77
per cent
Forecast increase in world food demand by 2050
FBA 018