

Growing Business Opportunities

Agribusiness – China 2014

Campbell Jeffery

Context

- ❑ Huge population: 1.3 - 1.4 billion
- ❑ Around 20% of world population
- ❑ Around 300 million expected to migrate from
 - rural to urban – MAJOR factor
- ❑ Growing confidence and capability as a nation
 - economically, regionally and technically

Key Challenges – China Agriculture

- ❑ Economic growth/widening gaps
- ❑ Food safety/integrity/security – “feeding the nation”
- ❑ Changing consumer profile/demand
- ❑ Environment concerns
- ❑ Inflation –especially core food items
- ❑ Societal expectations – changing
- ❑ Government support to agriculture
- ❑ Government policy e.g.. corruption etc.

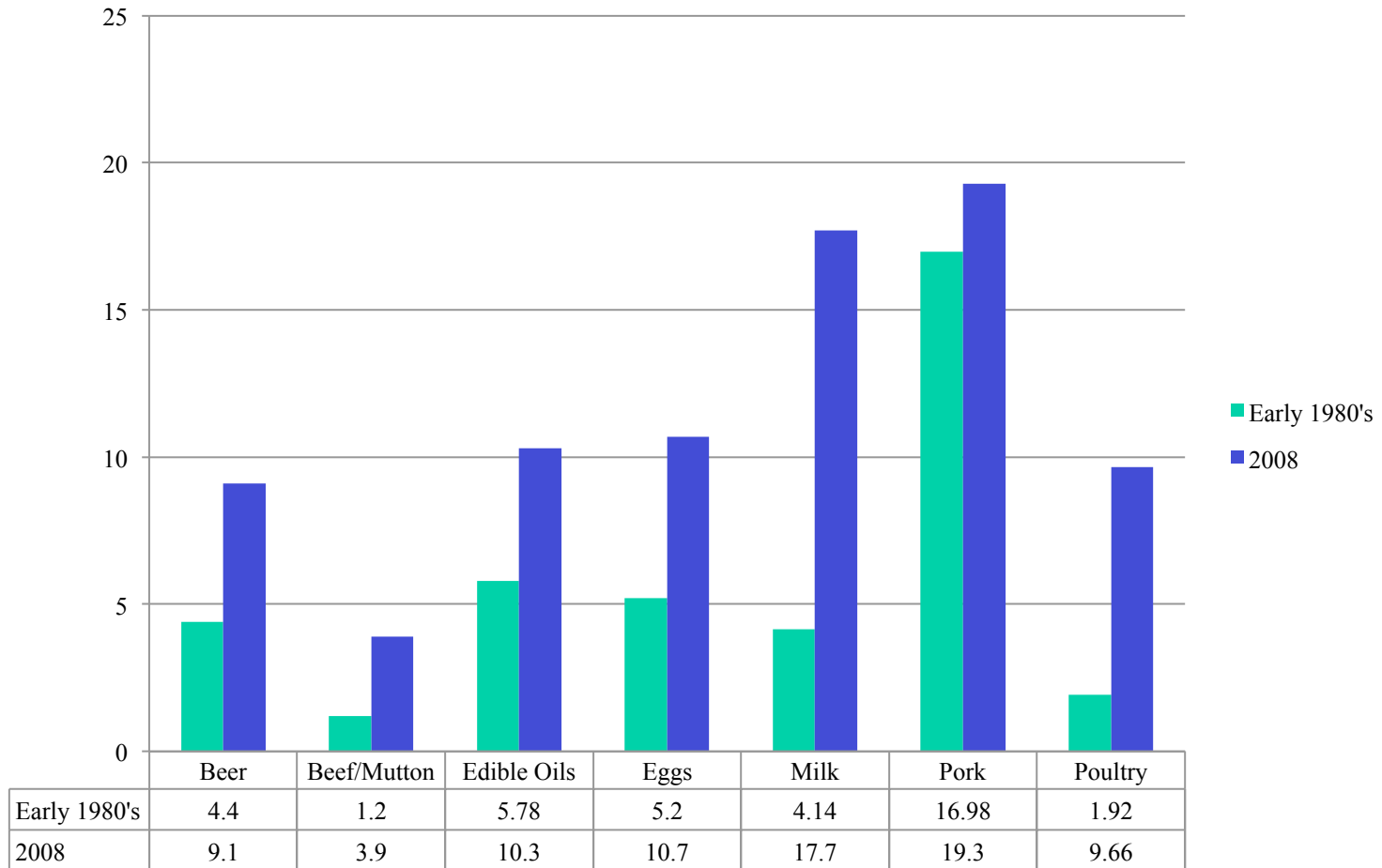
Economic Factors

- ❑ Disposable incomes – up to 20% CAGR
- ❑ GDP – still around 8%
- ❑ Inflation – VERY sensitive - especially food prices
- ❑ Growing acceptance of international responsibility
- ❑ China – still an economic engine
 - imagine Australia with no China demand!

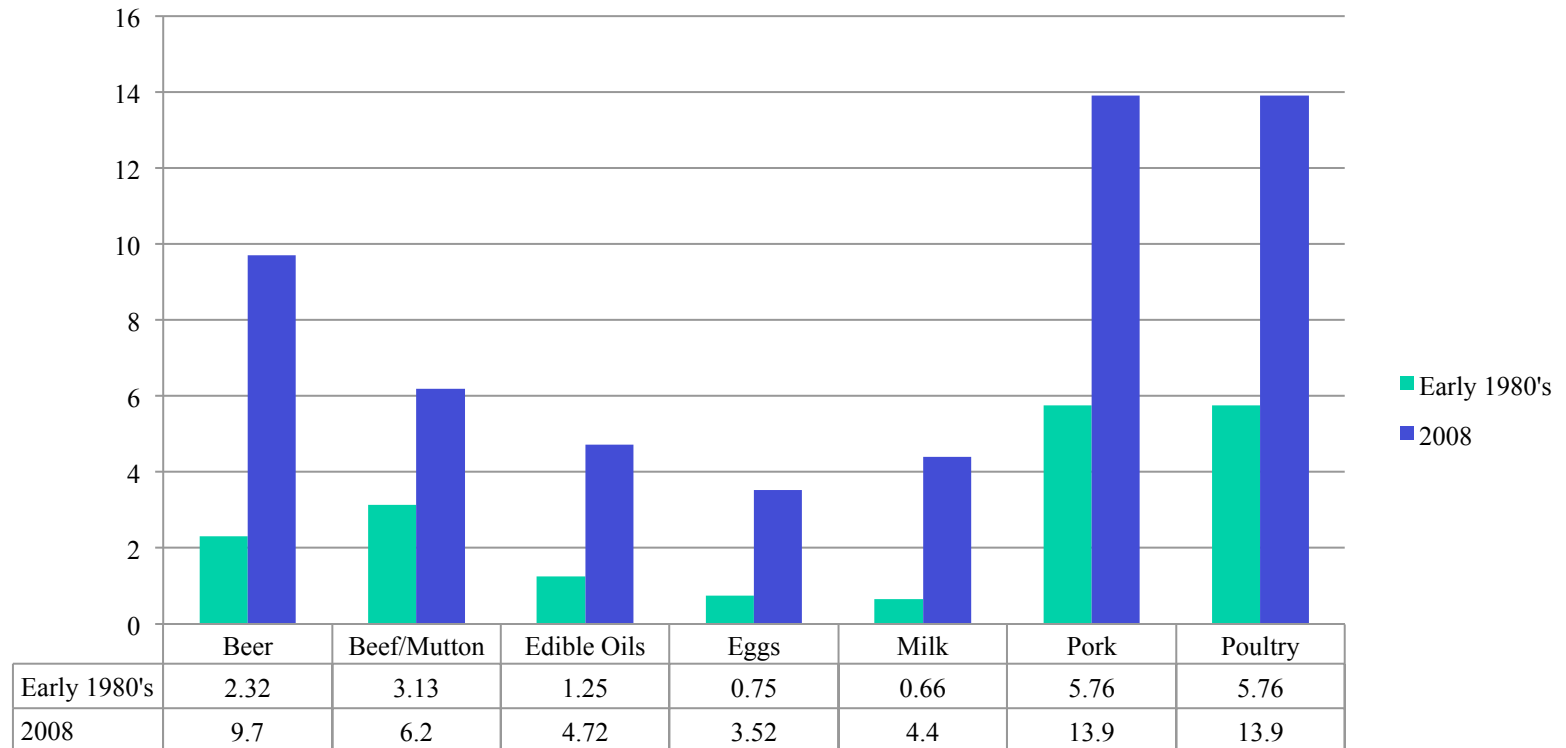
Societal Trends

- ❑ Trend/avalanche towards urban continues
 - now around 50% urban, only 18% in 1978
- ❑ Rising nationalism vs. lure of western lifestyle
- ❑ One child policy - one family supporting 4 parents
- ❑ Urban: rural incomes – 3.5:1, around 2:1 in 1980's
- ❑ Annually a further 20-30 million middle class
- ❑ Emerging concern about
 - food safety
 - getting gains from growth
 - environment
 - economic freedom
- ❑ Flaunt success – TOTALLY!

Urban Consumption Patterns



Rural Consumption Patterns



Agriculture – A Snapshot

- ❑ China – globally second largest agricultural producer
- ❑ China has 350 million farmers
- ❑ Rural population - 49%
- ❑ 7% of world arable land, 20% of world population
- ❑ Agriculture accounts for 17% of GDP (Aust. 3%)
- ❑ Rural household incomes, 35% cf. urban households
- ❑ Very strong “women-in-agriculture”
- ❑ Imports used to meet the shortfall – grain and meat
 - recognition that it IS a net importer

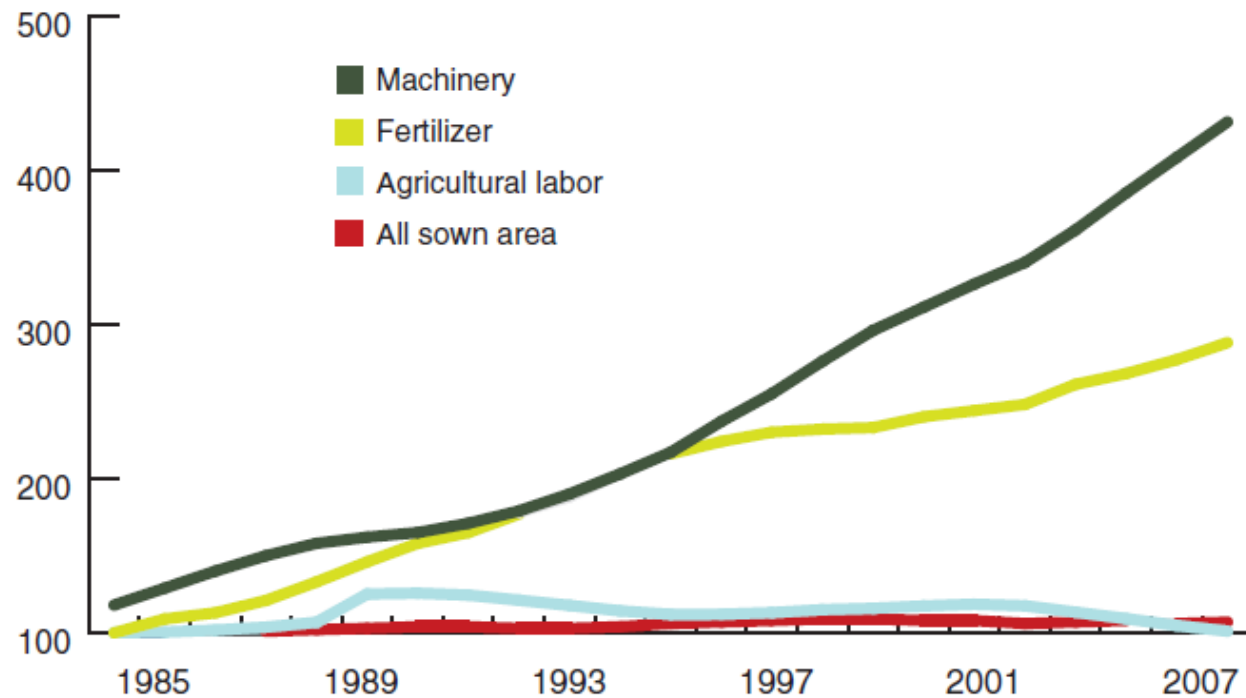
Agriculture – A Snapshot

- ❑ Rural production share of income falling
 - around 55% of total rural income is off-farm
- ❑ Land tenure issues – part of Chinese mind-set
 - but changing scene with leasing
- ❑ Agriculture – 8% of Chinese budget spending
 - around AUD 50B annually!
- ❑ Key part of CCP policy and political/social stability
- ❑ Underutilization – some concern for policy direction

Techniques Changing!

Figure 4
Indexes of agricultural use, China, 1985-2007

Index (1985=100)



Source: China's National Bureau of Statistics (NBS) data.

Wool

- ❑ China - clearly dominates wool market
- ❑ Environment regulation increasing/quota controls
- ❑ China produces 379,000t, Australia 500,000t plus
- ❑ China - will continue to hold lead position in world
 - but can easily substitute fibres
- ❑ Massive structural adjustment in processing sector
- ❑ Impact of exchange rates/global economy
- ❑ Chinese consumers see wool as a “high-end”
 - fits well with “new Chinese” consumer patterns
- ❑ Some off-shore movement – a “sleeper”

Beef

- ❑ 70 million head beef herd, 4 times Aust. production
- ❑ Production stresses
 - long pay back period
 - demand greater than supply
- ❑ Long term increased demand for beef – small base
- ❑ Some vertically integrated firms - “paddock to plate”
- ❑ High relative price compared to other meats
- ❑ Beef is a luxury type product – opportunity
- ❑ Other suppliers e.g.. Brazil, Argentina
- ❑ Local branded product

Dairy

- ❑ Per capita divergence – urban 15.2 litres, rural 3.4
- ❑ Largely driven by Govt. policy – ongoing – STILL!
 - subsidies galore e.g.. imported heifers (20-30%)
- ❑ Major reform and adjustment
 - “own farm” supply, larger farms, QA, standards
- ❑ Process and farm technology improving
- ❑ WMP imports (infant powder)
 - 480,000t in 2013, 320,000t in 2011!
- ❑ Liquid milk imports – up 30% in recent years - UHT
- ❑ Average yield 4,000 litres/cow (Aust. 5.6)
- ❑ Need 47 mmt of additional milk!

Wheat

- ❑ Annual production – around 110 mmt, 16% global
 - wheat area is around 24 million ha
- ❑ Heavily subsidized (USD \$130/ha - average)
 - seed, fertilizer, pesticides, fuel, support prices etc.
- ❑ Food security reserves – grain 225 mmt /40% prod'n
- ❑ Estimate that 70% plus mechanically harvested
- ❑ Average yield – 4t/ha – high input usage
 - fertilizer usage 4X increase since 1980's
- ❑ Average profit – USD 420/ha
- ❑ Concern about soil and environment
 - soil organic matter 1-5% but 8-10% in 1960's
- ❑ GM – a “sleeper”

Barley

- ❑ Australia enjoys strong market presence/awareness
- ❑ Local barley only 50% market needs and falling
 - 3mmt, Australia is 8-9 mmt
- ❑ Australia – around 40% of malt barley market
- ❑ Beer consumption/production
 - 6.3% increase in recent years – GROWING
 - large overseas investment and brands
- ❑ Beer culture is very different from “down under”
- ❑ Production 3.0 mmt – Australia 8-9 mmt
- ❑ Local beer is very good and very cheap
 - maybe around 30-40 cents /can!

Corn/Animal Feed

- ❑ China – second to USA in production
 - 160 mmt/35 million ha annually
- ❑ Major source of animal feed
- ❑ Opportunistic importer – mainly from South America
- ❑ Limits on use in ethanol (1% grain to ethanol)
- ❑ Stocks – 44 mmt – strategic reserves
- ❑ Animal protein needs feed grain – grain and hay
- ❑ Animal industries drive demand
 - dairy, 12% increase
 - broilers, 8% increase
 - eggs, up 6%

Oilseeds

- ❑ Massive user of oil – regular purchase item
 - Government control/price and investment
- ❑ Large growing soy bean industry – local & imported
 - 100 mmt crushing capacity
- ❑ 40% world soy bean imports to China
- ❑ Importing 55 mmt of soybeans, 80% of market
 - was ONLY 25 mmt in 2004/05
- ❑ Produces 14 million t of soybeans – falling
- ❑ Canola – using/producing 13 mmt annually
- ❑ Resumption of canola trade with Australia – blackleg
- ❑ Cottonseed – very common
- ❑ Heavy O/S investment

Horticulture

- ❑ Chinese - VERY aware of benefits of fresh produce
- ❑ Wealthier Chinese will seek/pay for quality
- ❑ Japanese and Korean -strong position in high end
- ❑ Chile and NZ have trade access advantage
- ❑ Grey trade via Hong Kong - “entrenched”
- ❑ Government/HAL/industry working on improved trade access fro Australian product e.g. citrus
- ❑ Opportunity in higher end market - local pricing
- ❑ Demand for better quality etc. lined to wider trends
- ❑ Supply chain issues – but improving
- ❑ Altered retail scene – supermarkets etc.

Wine

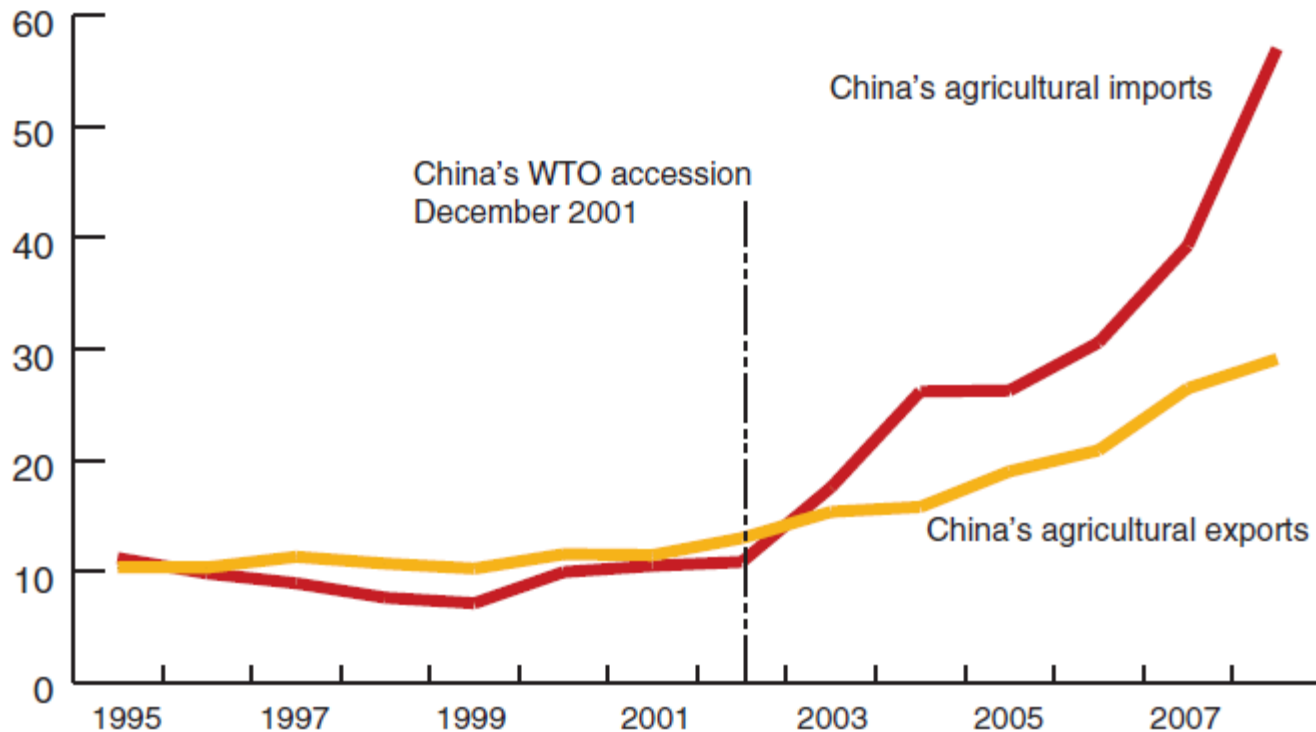
- ❑ An amazing change of scene
- ❑ Australian exports now around \$240m
 - in 2007 only \$49m
- ❑ Wine is NOT part of traditional culture
 - moutai and cognac/whisky
- ❑ Seen as part of new China - status and aspirational
- ❑ Many stores opening and a very competitive market
- ❑ Red wine is highly preferred
- ❑ Wine knowledge is limited – but growing
- ❑ Many other import suppliers- new and old world
- ❑ Price diversity
- ❑ By 2017 Asia's largest wine market!

Yes....it can and does import!

Figure 5

China's agricultural imports outpaced exports after WTO accession

Billion U.S. dollars



Source: Economic Research Service calculations based on China customs data.

Trade Access

NZ

- FTA in place since October 2008
- first developed country to negotiate with China
- initial success is promising
 - e.g... meat tariff “saving” in 2010/11 – NZD20M

Examples

- ❑ Dairy – phased out tariffs etc. by 2017/2019
- ❑ Meat – no tariffs after 2019
- ❑ Apples - by 2012, kiwifruit by 2016
- ❑ Wool – special tariff quota, increasing 5% p.a.

Trade Access

Australia

- FTA still under negotiation – VERY protracted
- Many rounds, but an “end in sight”
 - government priority e.g.. Barnaby Joyce/Sept
- Progress with bilateral negotiations e.g...:
 - meats - citrus - grapes
 - wool - apples - canola
- Commitment and patience required

Summary - Opportunities

- ❑ Dairy - skills, product and cows
- ❑ Wool - raw wool
- ❑ Cereals - mixed but real, policy issues
- ❑ Fresh - emerging and competitive
- ❑ Wine - a question mark but BIG
- ❑ Beef - skills, product and genetics (animals)
- ❑ Canola - need to respect and maintain
- ❑ Feed - hay/feed grains
- ❑ General
 - skills, paddock-to-plate
 - supply chain management
 - QA
 - risk management
 - environment

Making it Happen

- ❑ Hierarchy - class/status and decision making
 - income
 - development of regions/size of firms
- ❑ Modern capitalism relatively new – but centuries old!
- ❑ Strong similarities b/w China and Australia
 - more a friend than foe
- ❑ Patience and long “potential” pay-back periods
- ❑ Relationships are important – just like in Australia
- ❑ Opportunities abound – but never guaranteed
- ❑ A competitive and exciting market and culture
- ❑ Expect the unexpected – good and bad
- ❑ Ignore at your peril – direct or indirect!