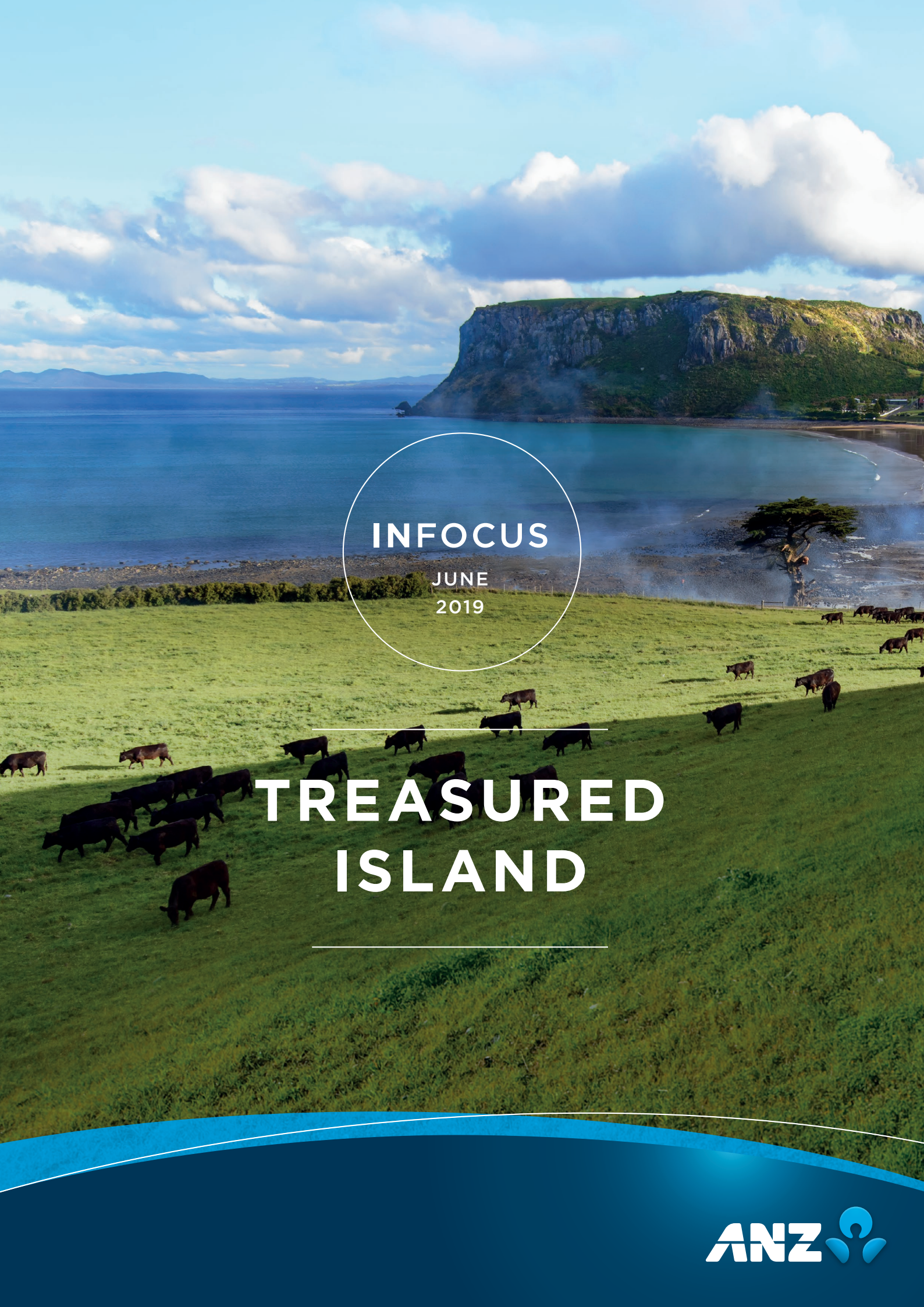




INFOCUS

JUNE
2019

TREASURED ISLAND

FOREWORD

If the success of the Australian agricultural industry was measured only by its population – that being the number of farming businesses in operation – then the outlook may be concerning.

Reducing at an average rate of 5 per cent per annum over the past 10 years, the number of Australian farmers has dropped from over 180,000 during the early 1970s, to around 88,000 in 2017 according to latest Australian Bureau of Statistics (ABS) data.

Fortunately, however, the gross output in terms of both the volume and value of production from Australian agriculture has followed an inverse trend to its population. Australian agricultural production volume, reported by way of a weighted index produced by Australian Bureau of Agricultural and Resource Economics and Sciences (ABARES), has increased at an average 5 per cent per annum over the 10 years from 2007/08 to 2017/18. Likewise, the gross value of production has also increased by 5 per cent per annum average annual growth over the same period.

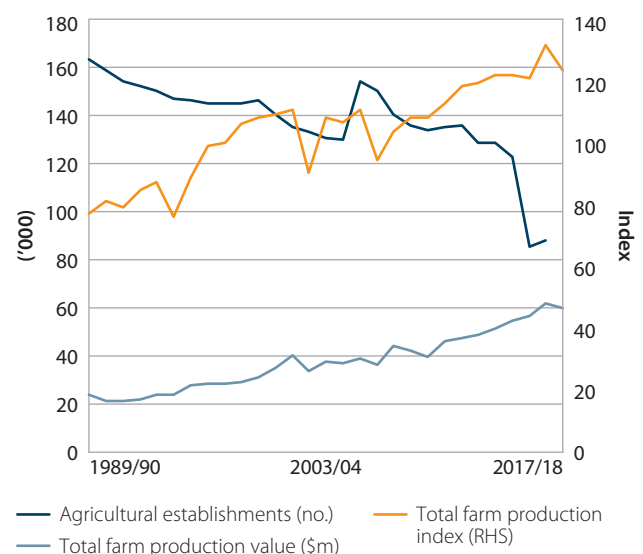
A large contributor to this growth has been the unwavering demand for quality and safe food in Australia's key export markets. It should be noted, however, that the industry has achieved such gains in the face of a variety of challenges, including climatic variability, natural disasters, declining terms of trade and increasing export competition.

The consolidation of Australian agriculture has driven a wave of productivity and efficiency gains that have been an important contributor to the industry's economic growth. The many benefits of scale in an agricultural enterprise are well researched and documented, and it would appear from current sector demographics and profitability trends that the industry will continue to consolidate for the near-term future. Productivity and efficiency gains aside, however, the wider impacts of this industry trend are important factors to be considered, particularly as it relates to rural communities and regional economies.

The impact of farm consolidation may also be looked at beyond that of individual communities or regions, with consideration of how it may affect an entire state. Tasmania, the island state responsible for around 2 per cent of Australian agricultural production value in 2016/17, represents a unique and diverse agricultural landscape.

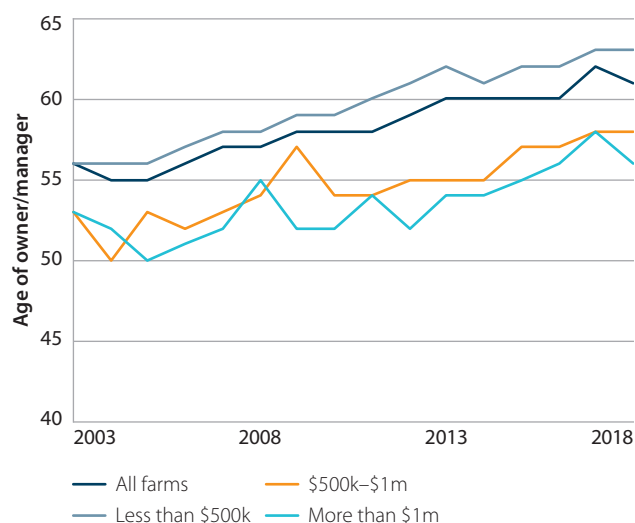
Over time, Tasmania has become known by mainland Australian and international markets alike for its premium-quality agricultural produce. Does this premium offering from Tasmanian producers provide a price outcome that has allowed the state's agricultural industry to maintain a demographic that does not mirror the rest of Australian agriculture's consolidating trend? Furthermore, do the benefits of the well known and successful Brand Tasmania trademark extend to the entire state on a bulk commodity basis, or are they restricted to those actively branding and marketing their goods?

NUMBER OF FARMING BUSINESSES, GROSS AGRICULTURAL PRODUCTION AND ITS VALUE



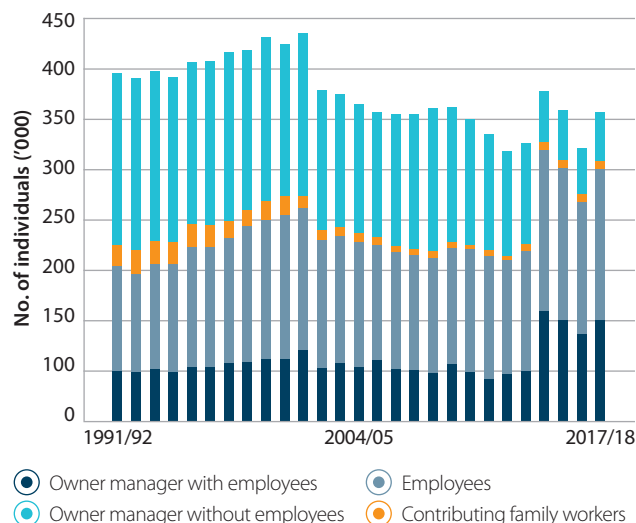
Source: ABS, ABARES, ANZ

AGE OF OWNER/MANAGER AND FARM TURNOVER



Source: Australian Farm Institute, ABARES, ANZ

RURAL EMPLOYMENT IN AUSTRALIA



Source: ABS

FEWER, LARGER, STRONGER

The contribution of Australia's largest farms, to both the farming population and gross industry production value, is following an increasing trend. Farming businesses that turn over more than \$1 million dollars per annum were responsible for around 60 per cent of agricultural output value in 2016/17, a figure that has grown from just 25 per cent 40 years ago. These large farms now represent 16 per cent of the total farming population, increasing from just 3 per cent over the same period.

A key topic within the industry regarding consolidation and future trends often relates to the age of the average Australian farmer. An interesting fact to note regarding the industry's larger enterprises is that the owner/manager of the business is likely to be significantly younger in age than those operating smaller-scale businesses. Analysis of ABS Agricultural Census data from 2015/16 demonstrates that farms with a turnover of greater than \$1 million per annum are owned and operated by individuals some six years younger than those farms that turn over less than \$500,000 per annum.

The data suggests that in agriculture, with relative youth comes a willingness to access technology, seek efficiency gains and drive productivity growth – with these being the common traits of Australia's largest farms. Interestingly, preliminary modelling from ABARES suggests that if all farms in Australia produced a level of output equal to that of the large farm sector, that the total value of agricultural production would be around 18 per cent above the current levels.

The modelling of output suggests that farm operating profit would be around 24 per cent higher, driven by higher receipts and lower operating costs, common of large scale operations.

Combined, these statistics point to the importance of recent and continued structural change within Australian agriculture, however they are not representative of the impact of consolidation on regional social structures, nor regional economies.

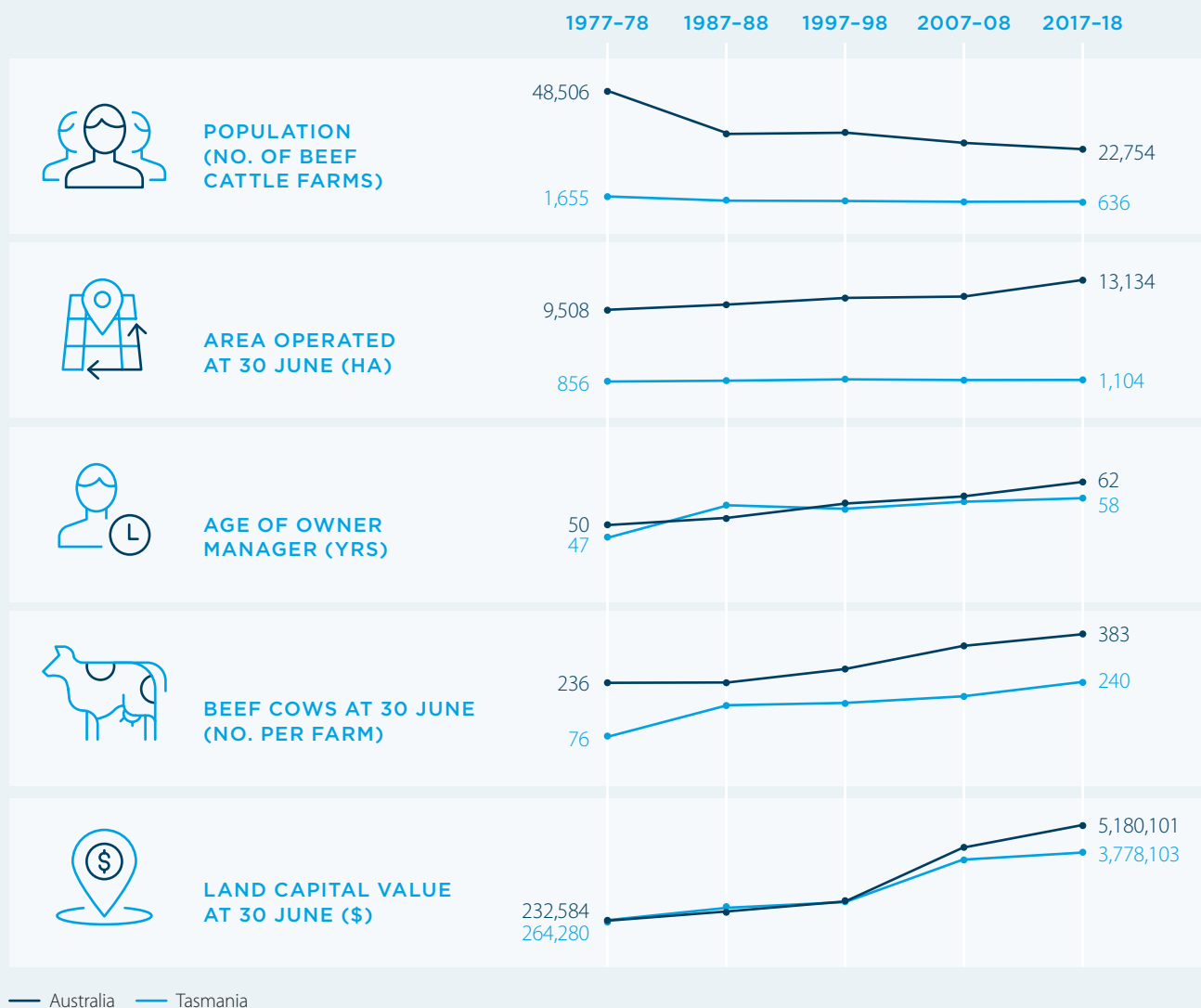
CONSOLIDATION AND THE IMPACT ON REGIONAL AUSTRALIA

The decline in the number of farming businesses throughout Australia is often attributed to the declining health of rural communities. This is partly driven by the perception that it is commonly multigenerational families exiting farming, therefore having an immediate impact on regional towns, education channels, sporting teams, agricultural supply chains and wider community services that contribute to local economies.

While these are important and, in some cases, non-deniable realities of farm consolidation, statistics from ABS farm survey data assist with viewing the trend in a slightly different light. According to ABS classifications, if at least one member of a family is a farm owner or manager, the family is defined as a 'farming family'. At the 2016 Census, 47 per cent of farming families – equating to around 41,000 farming businesses – were residing as couples without children. This figure is some 9 per cent above the 'all Australian' figure for the same category. This implies that in many cases, the children of farming businesses have relocated away from the family farm, while the farm remains in operation. The pressure of reduced local population on regional communities is therefore likely to be occurring prior to farm consolidation actually taking place. This figure also implies that consolidation is likely to continue as these couples without children taking on the business look to exit the industry.

CONSOLIDATING ON TREND - A BEEF INDUSTRY EXAMPLE

The Tasmanian broadacre and dairy industries have followed national trends in consolidation with smaller farms giving way to larger and generally more profitable operations. The beef industry gives a clear example of these trends over time:



Source: ABARES Farm Survey

OVER TIME, TASMANIA HAS BECOME KNOWN BY MAINLAND
AUSTRALIAN AND INTERNATIONAL MARKETS ALIKE FOR
ITS PREMIUM QUALITY AGRICULTURAL PRODUCE



TASMANIAN AGRICULTURE: PREMIUM... DIVERSE... UNIQUE

The four major agricultural commodities produced in Tasmania by gross value are dairy, beef, potatoes and wool.

Four industries – dairy, beef, potatoes and wool – represent 63 per cent of the gross value of agricultural production from Tasmania. Major fisheries industries are also prevalent and, in some cases, larger than their agricultural counterparts, including salmonids, rock lobster and abalone.

Bordered by ocean and upholding an excellent image of being clean, green and highly productive, Tasmania may well represent to a mainland Australian what Australia represents to the international markets whose own perception of the nation are so vitally important.

Provenance and quality are highly valued elements of the food industry in Tasmania. The processing and packaging of food along the supply chain increased the raw value of Tasmanian grown food by 92.1 per cent in 2016/17 to a wholesale value of over \$4.16 billion. Further value is added to food sold throughout the state through both retail and food service outlets, taking gross value to around \$5.8 billion. This multiplier effect of agricultural produce along the supply chain is important in the context of farm consolidation, providing alternative employment and economic benefit to regional areas utilising the raw products of agricultural production.

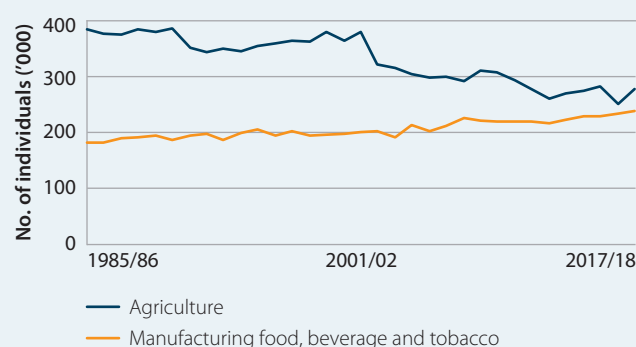
Tasmania has a well-established brand for premium food through the Brand Tasmania initiative. Brand Tasmania, which is a joint initiative of the State Government and the private sector, provides opportunities for Tasmanian grown product to be differentiated in both domestic and international markets. Businesses wishing to partner with Brand Tasmania and market their produce using the 'brandmark' must qualify under a set of criteria that relate to product origin, quality assurance, human resources management, and environmental management and responsibility.

Given, however, that almost two-thirds of Tasmania's produce is grown by less than a quarter of the state's farming businesses; do these larger scale operations receive a price benefit from their Tasmanian postcode and Brand Tasmania association?

ANZ analysis of historical prices for the major commodities of beef, lamb and farmgate milk, suggests that Tasmanian bulk commodity producers generally receive a discounted price when compared to their mainland counterparts. For instance, sale yard cattle prices are, on average over the past two years, 3 cents per kilogram (carcase weight) lower than Queensland and 4 cents lower than New South Wales.

Over 70 per cent of Tasmanian produce is surplus to local consumption requirements and is sold either to domestic (interstate) or export markets. In these markets, the bulk Tasmanian product must compete on price with both mainland Australian and global produce. Given the relative distance of Tasmania to much of Australia's population, the cost of freight to both interstate and key international markets is a contributing factor to the price differential experienced by Tasmanian producers.

DIRECT AGRICULTURAL EMPLOYMENT AND FOOD AND BEVERAGE MANUFACTURING EMPLOYMENT



Source : ABARES



ALMOST TWO-THIRDS OF TASMANIA'S PRODUCE IS GROWN BY LESS THAN A QUARTER OF THE STATE'S FARMING BUSINESSES; DO THESE LARGER SCALE OPERATIONS RECEIVE A PRICE BENEFIT FROM THEIR TASMANIAN POSTCODE AND BRAND TASMANIA ASSOCIATION?

The Federal Government's Tasmanian Freight Equalisation Scheme (TFES) operates to reduce the cost disadvantage faced by Tasmanian producers in accessing the mainland and export markets, however, the scheme is not designed to remove all cost differential. TFES also provides no subsidy for Tasmanian produce going to export markets after crossing Bass Strait. As a result, Bass Strait freight costs remain 24 per cent more expensive than comparable European services.

While Tasmanian agriculture is at somewhat of a disadvantage as a result of its isolation and relatively small production base, it also has a distinct advantage as a result of its relatively wet climate. The often counter-cyclical nature of the Tasmanian climate compared to the mainland means that Tasmanian farmers face strong arbitrage opportunities when production conditions are difficult on the mainland. For instance, the recent drought across eastern Australia has seen many Tasmanian farmers take up the opportunity of lower lamb and young cattle prices on the mainland to purchase, ship to Tasmania, fatten and resell.

The agricultural industry in Tasmania, albeit with excellent branding and marketing opportunities for smaller scale and niche operators, has not buffered the state from the nationwide farm consolidation trend. Like mainland Australia, Tasmanian agriculture has experienced a structural shift towards fewer, higher turnover farms.

While very small farms in Tasmania are common, with over 30 per cent of the farm population having an annual turn over of between \$50,000 and \$150,000, these farms account for only 4 per cent of the total value of agriculture from the state.

Tasmania's largest farms, those with an annual turnover exceeding \$1 million, represent 17 per cent of the population and 61 per cent of the total value of output. A further 20 per cent of farm output is derived from medium-sized farms turning over between \$500,000 and \$1 million per annum. Tasmanian agriculture is therefore heavily reliant on larger scale operations, while the small niche operators play an important role in the diversity of product offerings for the growing retail and food service industries.

Tasmania retains its uniqueness through the proactive marketing of produce under a state-specific brand. This is a concept that is yet to be successfully replicated by other mainland states – or arguably by Australian agriculture as a whole. As farms become larger and produce increasingly large quantities of commodities, the agricultural supply chain through first and second-stage processing would appear to be where the opportunity lies to generate further premiums from quality Australian produce. Tasmania is leading the way from a niche marketing perspective, however, it would appear that for bulk commodity producers, premium pricing is captured further along the supply chain and not at the farmgate.

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