

Living In Interesting Times

By DAVID LEYONHJELM

Australian agriculture is facing interesting times. As the old Chinese curse implies, that may or may not be good.

Many regions have now received some rainfall. Most need more and water storages are nowhere near replenished, but the situation is better than it was. If the drought is finally over, five years of average or better seasons are likely. But it will be very interesting if we face yet another year of failed crops.

Many commodity prices are at their highest in decades. However, the drought has been a major contributor. With global demand the other main factor, what will happen once production is back to normal?

Wheat growers will soon have options for selling their wheat on the export market, with price signals linked to quality and processing attributes. The way they respond and the implications this has for those seeking to buy and sell their wheat will be very interesting.

It is going to be interesting to see if technology can come to the aid of biofuels to allow them to be made from materials that do not compete with food crops. The alternative is for them to slowly disappear as subsidies are withdrawn.

It will be interesting to see how canola growers in SA and WA deal with the disadvantage of being unable to use twenty-first century technology, unlike their NSW and Victorian counterparts or their overseas competitors. By sneaking a few bags of seed across the border and calling it contamination, perhaps?

On the livestock front, South Koreans are demonstrating to stop US beef imports on the bizarre ground that they might be affected by BSE. What they are really objecting to is imports per se, and they are not the only ones; protectionism is on the rise around the world. History tells us that protectionism makes for very interesting times in agriculture.

The animal rights extremists in PETA have convinced a few foreign retailers not to sell Australian wool products based on opposition to mulesing. Will this send the wool industry

into an irreversible decline or will it fight back, as cattle farmers did in the US, to stop consumers being misled?

China, which has a forced labour camp waiting for any Chinese PETA members, has the potential to expand its already large wool industry to fill any void. It could also become the food bowl of Europe and allow European farms to return to the picturesque subsistence that most European citizens prefer. That would be interesting.

Interesting times face those supplying inputs too. The oil price rise has not only had a major effect on the cost of diesel but has flowed through to fertiliser and chemical prices. The rise in the Australian dollar has made it worse and also raised the price of machinery and equipment. Investing in a crop with an uncertain seasonal outlook has rarely been more interesting.

Then there is the impact of the government's imminent policy on climate change. By how much will it force up the price of fuel and electricity with its proposed carbon trading system? Will there be windfall gains for farmers from carbon offsets? Will farm forestry become more profitable than sheep? What if global warming turns out to be over, as some suggest?

There may be lots of uncertainty, but there are also plenty of known factors that are very positive. That has led to a general air of optimism surrounding agriculture, reflected in the share prices of many agribusinesses. They began to rise about six months ago and mostly continued until around April-May when the dry autumn became obvious.

Graincorp's takeover bid for Ridley is fuelled by such optimism. The logic of wanting to buy a major user of grain in a newly deregulated market is obvious, but there is a substantial degree of bravado in its bid. Graincorp cannot afford to pay real money as it will make a loss this year, so is offering its own shares. Add the lack of a takeover premium and its patchy financial history and Ridley shareholders would need a lot of optimism to get excited. It

will become more interesting if another bidder appears though.

Optimism seems to be high at Futuris too. Its plan for a bit of market manoeuvring unravelled when the sale of its stake in AACo came undone. That led to an acrimonious battle for board control which it has now won. Presumably the sale will be back on and something interesting will be done with the proceeds. A bid for Graincorp, which I forecast a couple of months ago, would be especially interesting.

For those making investment decisions and determining business strategy, whatever the size of the business, boring predictability is often preferred to interesting times. Only hindsight will show whether Graincorp's bid for Ridley is inspired or foolhardy. Futuris may come to regret its sale of AACo.

Change should be welcomed and the future is something to look forward to. Modern technology is always an improvement and the good old days were never that good. But I cannot think of a time that has been more interesting for agriculture. In a few years, perhaps I will know what that means.