

## Agribusiness Sector Overview

### David Boyd, Chairman – Clyde Agriculture

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#### AGRICULTURE

What I would like to do is comment briefly on the growth of Clyde and the principles, which have guided that growth, and make a few comments on each of the commodities with which we are involved.

Last year (before the drought set in), I was holding forth to one of our many UK visitors about how I think I have the best agricultural job in Australia. At the end of our trip he reminded me of the comment and said I am quite sure you have the best agricultural job in the *world*. I don't disagree.

When it was decided that the private Swire family Company would take a significant position in Australian agriculture, it was agreed that the concentration should be on production of products where Australia had distinctive competence / competitive advantage, and where it was possible to achieve scale. Scale for the economies that come with it and for a degree of market strength. The platform for growth was a small cotton/wool/beef operation based on Bourke in which Swires already had an interest and which had substantial tax losses.

The founder of this business had correctly identified Bourke as an ideal climate for irrigated cotton production. The business also owned and operated Bourke's leading hotel, now rejoicing under the name of The Port of Bourke Hotel, and a cotton gin.

The original aim was to build a business producing/running

- 30,000 bales cotton
- 100,000 sheep
- 10,000 beef cattle

Today we have

- 60,000 bales cotton
- 230,000 sheep
- 30,000 cattle
- 60,000 acres dryland winter crop, mostly high protein wheat

According to Australian Farm Journal this makes us Australia's

- Second largest woolgrower
- Fourth largest cotton grower
- Amongst the 10 largest wheat growers
- Probably the second largest beef producer in NSW

We have strenuously avoided all invitations to get further involved in processing, preferring to keep our focus on primary production. We are simply farmers. I often make the point that we are not corporate farmers, but large-scale family farmers. We are thus shielded from the need to compete in the public capital markets, driven as they are by short-term considerations.

In a sentence, the Company can be described as "six cotton farms, eleven stations a gin and a pub"!

The Company is heavily decentralised, having only three people in Sydney, with the administrative office, including the computer and the Accountant, all in Bourke. We operate our own light aircraft from Bourke and generally use commercial aircraft for travel between Sydney and Dubbo.

We have endeavoured to strike a balance between spreading the rainfall risk geographically and not getting too big a spread of operation. Our guiding principle has been that all operations must be within two hours' flying time from Bourke. Although if anything really attractive came up we could always buy a faster aircraft!

Other guiding principles have been

- Spreading the enterprise mix across cotton, wool, beef and wheat, whilst retaining the benefits of focus/concentration
- Striving to be as least as efficient as the top 20% of family farmers
- Owning only AAA properties
- Fostering a high level of maintenance, land and animal care
- Having scale in each unit
- Employing quality management at all levels
- Minimising bureaucracy and overheads
- Sensibly applying appropriate modern technologies and techniques.

We strive to adhere to the Swire Group ethos of always taking the long-term view, and being mindful of the Group motto “esse quam videri” (to be rather than to seem to be).

### **Operating Challenges**

The long-term price of agricultural commodities has been trending downwards since Adam was a boy and we see no end to this. Further in our pursuit of scale we need to accept that we are in the commodity business. Quality commodities, but still commodities!

To counter this trend we have to make productivity increases continually and for these we are heavily reliant on science and technology. The key is to constantly strive for the lowest possible unit cost of production. This usually means achieving the highest possible yields. It is not a low expense strategy. In fact in many instances, in absolute terms, it may mean higher expense levels with a more than commensurate increase in units produced; be they bales of cotton, kilograms of wool, kilograms of beef, tonnes of wheat, lambs and calves born.

### **Cotton**

The modern Australian cotton industry is, in my view, a model industry. It is characterised by

- Minimal Government involvement
- Fiercely competitive marketing
- Quality research and development, with great communication links between researchers and producers
- The appropriate balance between what is done collectively and what is left to the market place

An acute awareness of its impact on the environment with constant improvement in the efficiency of its water usage and the reduction and containment of chemical usage.

The application of science by way of electrical impulses to measure moisture levels and soil types which are then radioed to a central point, genetic engineering (GMO's) to improve insect resistance, satellite and laser technology to make more even slopes and straighter rows (for water efficiency and more precise chemical application), all combine to make the industry a vibrant, exciting place to be. In its application of science, and in its sophisticated marketing techniques, the Australian cotton industry is the world leader.

### **Wool**

This great industry, so much part of our cultural heritage, has been doing it tough. But, in saying even that I fall into the trap of generalisation, which was so well identified in the McLachlan Report. The fine and superfine sector has been doing very nicely until recently. But, until the last few weeks, prices for medium and stronger wool have been abysmal. We may at last be seeing some sustained improvement in these, after ten years of supply exceeding demand. Somewhat ironically, we are now hearing cries for greater supply! For our part we have “hung-in” as we dropped our micron by two points. Whilst we may have to accept a smaller industry, there now appears to be a better balance between supply and demand.

The industry has been notable for its lack of genetic improvement and overall poor productivity improvement record. The cost of shearing and the occupational health and safety issues associated with this very physically demanding and skilled work, demand that we find better methods of harvesting. The new production-line like approach, using holding and conveying devices may well offer at least some solutions. From a marketing point of view we will almost certainly increasingly sell our wool as we sell our cotton. Fixing the price when we like the market, mostly on a forward basis. Genetic engineering and better understanding of nutrition/digestion seem to offer the best prospects for the badly needed productivity improvements.

From a production oriented viewpoint, the reality is that so much of inland Australia is not really suited to any other known commercial activity, other than woolgrowing.

The recent ructions regarding the Board of AWI are seen by this not impartial participant, as a correction of the all too common failure of Government - this time in respect to board appointments.

Whilst we like to think of ourselves as being in the wool business with our sheep, the reality is that for most of the last ten years we have really been in the meat/sheep business. The strength of the mutton market has indeed been a major positive factor and with the much better wool prices, the sheep enterprise is very attractive at the moment. If only it would rain!

### **Grain**

Productivity improvements in the grain industry have been significant and consistent. Better (mainly bigger) machinery, moisture conservation and access techniques, satellite technology, together with improved varieties, rotational crops and more precise management of disease and fertility needs, have all contributed to a capacity for farmers to live with a volatile and, at times, depressed market. They have also allowed the wheat belt to move into lower rainfall areas. Districts such as Walgett now produce more wheat (by value) than wool. More needs to be done to lower off farm costs and in this regard, more deregulation and greater competition is required. The cotton industry model should demonstrate to the domestic marketing organisations that they have little to fear from more competition from international merchants, and the producer would be the beneficiary.

### **Beef**

The beef industry has had a great run thanks to great seasonal conditions in the North, the recovery of the live export trade and sound markets in US, Japan and Korea. As we all know, the season has now turned sour with a vengeance. Better genetics and pasture management has lead to improved weight gains and cattle are being sold at the desired weight levels at a younger age. Off farm efficiencies remains the major opportunity area for increased prices to the producer. As with the grain industry, off farm cost comparisons with the US reflect very poorly on Australia. The only way Australia has been able to remain competitive with the US, in third country markets, is by paying producers for their cattle about 50% of what their US counterparts receive. Technological developments, particularly measurement techniques, are assisting both with breeding and general herd management. At Wingadee, where we fatten many of our male cattle to Jap ox weights (over 300kg. dressed), we now place an eartag in all cattle, which carries a computer chip. This records data relevant to that particular animal, including weights, and thus weight gains can be monitored and "poor doers" quickly identified and disposed of. The information on the chips is read at fast speed by a scanner erected in the race and transmitted to a lap top computer. As it said in the advertising blurb, this technology allows *intensive* methods to be applied to *extensive* operations.

### **Natural Resource Management**

I cannot let an opportunity like this go by without a word on my most emotive, passionate subject! I am absolutely incensed by those who worship at what Geoffrey Blainey terms the "dark green altar". They insult some of the best agricultural scientists the world has seen, in saying that all we have done in Australia in the last 200 years is apply inappropriate European methods! The development of agriculture and the sustainable productivity improvements of recent years are quite outstanding, mostly in the much-maligned Murray/Darling basin. I am encouraged to note that an increasing number of commentators are now starting to recognise that some of our so-called leading scientists (e.g. the Wentworth Group) are by no means objective analysts and are confusing good science with ideology.

The very topical water efficiency discussion has a habit of surfacing in drought times. That is fair enough, but we need to recognise that the distinctive feature of Australia's climate is not so much that it is a dry continent (although that it certainly is), but that it has enormous variability. Dorothea McKellar had it right - "droughts and flooding rains". She might have added "and not much in the middle". Our scientists and bureaucrats don't seem to appreciate the magnitude of the water flows in the wet times and grossly overstate the impact of our dams and irrigation practices.

If man is going to live successfully in this environment and nudge it ever so gently towards meeting his needs, then clearly we need to conserve in the times of plenty against the inevitable times of scarcity.

This conservation can take many forms, - cash, fodder, pasture ground cover and, of course, water. And we need to remember that the water runs away unless it is stored somewhere. It won't wait for you! In the plenteous times there can be so much water it is almost impossible to "waste" it. In fact, the only waste is failure to put more away for a non-rainy day.

The proposed annual "cap" (i.e. the maximum that can be extracted in a twelve month period) from the Barwon/Darling River is the equivalent of less than three days' flow past Bourke in a moderate flood and there have been 14 floods in the last 13 years. The greatest "waste" with water stored, is evaporation from

large surface area storages, including the State owned and operated dams. The man-engineered Menindee Lakes Storage System has annual evaporation approaching 1m. megalitres, some four times the average annual irrigation extractions on the Barwon/Darling. An engineering improvement which could save, say half this evaporation, would claw back more water for the river than all of the Carr Government's draconian cuts, with *no negative socio-economic impacts*.

I have deliberately avoided more than passing reference to the drought - the most devastating of all nature's imposts. I like to pretend it is not happening!

### **Summary**

I have attempted to give you some background to the thinking behind the establishment and growth of what is now a significant player on the Australian agricultural scene. I have attempted to show how embracing technological developments, whilst keeping our feet firmly on the ground, will lead (we hope) to the long term survival of the business. We need to embrace Australia's move towards being a more open, competitive economy, to eschew government subsidisation/excessive involvement and strike a better balance between what industries do collectively and what should be left to the market. You will have gathered that I see the modern Australian cotton industry as a model for other agricultural sectors.

None of this has dealt with the history and romance of the businesses, a matter that is very close to my heart! Clyde has been fortunate that its initial growth phase has coincided with circumstances, which have seen some of eastern Australia's finest pastoral properties come on the market. Properties which have been tightly held and have only changed hands two or three times since European settlement. Stations such as Wingadee, Oxley (Ringorah), Brewon, Beemery, Toorale, Thylungra and Portland Downs are properties well embedded in Australian pastoral folklore. It is interesting to note that all are located on our equally famous inland rivers, (the Castlereagh, Macquarie, Barwon, the mighty Darling, Coopers Creek, and the Barcoo), which themselves form a fascinating study in their irregular behaviour, not to mention their great contribution of topsoil as a consequence of periodic flooding over millions of years.

Nor have I dealt with the all-important human side of putting the business together. How Swire's reputation (and practice) as an employer has helped us attract so many well trained people from the old pastoral companies, so many of which (i.e. the companies!), have fallen by the wayside in recent years.

I have only lightly touched on the threats, as I see them, to agriculture as a consequence of the exaggeration of environmental problems, giving rise to quite unnecessary intrusion of government bureaucracies into the day-to-day responsibilities of farmers.

In spite of all these things I haven't done, I hope that I have been able to give you some insight into what has been a marvellous opportunity for a bush boy to embrace.