

Future markets for Australian agricultural produce

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Abstract

Between 1992-93 and 1997-98, the volume of crop production is projected to rise by 14%, reflecting expected increases in the production of most crops, including wheat, coarse grains, grain legumes, cotton and sugar. The countries of South and East Asia are likely to be growing export markets for many of these crops. In the five years to 1997-98 the volume of livestock slaughterings is projected to rise by 12% with increased beef production more than offsetting a projected decline in sheepmeat production. The volume of other livestock products is projected to fall by 6% reflecting the net effect of a projected fall in wool production and an increase in milk production.

Introduction

The Australian farm sector, the source of Australia's food and fibre products, is an important component of the Australian economy, contributing between 2 and 3% of gross domestic product and around a quarter of merchandise exports.

Farm exports in 1992-93 were valued at \$15.7 billion and exports of forest and fisheries products an additional \$1.1 billion. Export markets take the bulk of Australian wheat, cotton, sugar, beef and wool production, while for mutton, coarse grains, grain legumes and horticultural crops, export and domestic markets are of about equal significance. The bulk of lamb, pig and poultry meat, dairy products and oilseeds are consumed domestically.

The aim in this paper is to provide an overview of future market prospects for farm products, taking as its perspective the medium term to 1997-98. The paper draws on a range of ABARE commodity outlook papers presented at the *Outlook 93* conference held in February this year, and on medium term projections of main farm commodity production and exports underlying the farm sector aggregates published in ABARE's June 1993 *Agriculture and Resources Quarterly*.

Prospects for crops

Australia produces a great diversity of commercial crops, ranging from broadacre grains, oilseeds and grain legumes to more intensive crops such as rice, sugar, cotton and horticultural crops. The gross value of crop production in 1992-93 was \$10.6 billion, nearly half of the total gross value of farm production of \$21.7 billion. The volume of crop production is projected to rise by 14% between 1992-93 and 1997-98, reflecting expected increases mainly in the production of wheat, sugar and cotton.

Australia's wheat production in the early 1990s averaged 13.7 Mt (three-year average from 1990-91 to 1992-93). This is projected to increase by 20% to around 16.5 Mt by 1997-98 (Table 1). Virtually all this additional production is likely to be exported. In the domestic wheat market, only the relatively small feed sector has shown much growth in recent years.

Over the medium term the outlook for world wheat trade and prices is dominated by the economic changes which are taking place in China and the Commonwealth of Independent States (CIS). Because these two regions are the world's largest wheat producers and the largest wheat importers, even relatively small variations in their production or consumption can have a large impact on world wheat trade and prices.

Recent changes to Chinese grain policies have moved both production and consumption further toward a market-oriented system. Wheat production increased rapidly in the early 1990s, partly as a result of favourable seasons, and some doubts remain over whether this rate of growth can be maintained over the longer term. China is projected to increase wheat use by around 3 Mt a year as both population and incomes increase. A significant proportion of this increased consumption is likely to be satisfied through imports.

Table 1. Medium term projections for Australian crop commodities.

Commodity	Unit	1990-91	1991-92	1992-93	Three year average 1990-91 to 1992-93	1997-98	Percentage change 1990-93 average to 1997-98
<i>Wheat</i>							
Production	kt	15 066	10 688	15 482	13 745	16 536	20
Exports ^{a b}	kt	12 191	8 152	9 520	9 954	13 035	31
Percentage exported	%	81	76	61	72	79	
<i>Barley</i>							
Production	kt	4 108	4 471	5 557	4 712	4 818	2
Exports ^a	kt	2 849	2 371	2 973	2 731	2 960	8
Percentage exported	%	69	53	54	58	63	
<i>Sorghum</i>							
Production	kt	751	1 055	472	759	1 430	88
Exports ^a	kt	165	183	182	177	236	34
Percentage exported	%	22	17	39	23	17	
<i>Canola</i>							
Production	kt	99	161	213	158	195	24
<i>Lupins</i>							
Production	kt	758	1 038	987	928	1 056	14
Exports ^a	kt	330	548	626	501	574	14
Percentage exported	%	44	53	63	54	54	
<i>Field peas</i>							
Production	kt	318	463	420	401	480	20
Exports ^a	kt	204	220	203	209	239	14
Percentage exported	%	64	48	48	52	50	
<i>Cotton ^c</i>							
Production	kt	433	502	348	428	589	38
Exports ^{a b}	kt	319	458	414	397	540	36
Percentage exported	%	74	92	119	93	92	
<i>Sugar</i>							
Production	kt	3 545	3 100	4 256	3 634	4 850	33
Exports ^{a b}	kt	2 613	2 276	3 282	2 724	3 838	41
Percentage exported	%	74	73	77	75	79	

^a July–June exports. ^b A significant proportion of export crops such as wheat and cotton may be exported in the financial year following that in which they are harvested. Thus, low wheat exports in 1992-93 reflect the effect of the low 1991-92 wheat crop, and high 1992-93 cotton exports, the effect of the high 1991-92 cotton crop. ^c Cotton lint.

China is currently a net exporter of coarse grains but is expected to become a net importer over the next five years as rising living standards result in a shift toward the consumption of more livestock products.

China has had a policy of achieving self-sufficiency in grain production but this is expected to be relaxed over the medium term as the domestic meat industry is developed.

In the former Soviet Union, grain production tended to stagnate during the 1980s because of the inadequacies of grain transport and handling infrastructure and the supply of basic inputs such as fuel and fertiliser. In more recent years these problems have continued in response to the extensive economic dislocation associated with the process of political and economic reform in the CIS. Consequently, grain production is not expected to rise significantly until the latter half of the 1990s. On the other hand, utilisation of grain, particularly for feed, is likely to be reduced somewhat over the next few years because of the projected large decline in livestock numbers. Thus CIS grain imports could decline over the projection period. The decline, however, may be moderated by additional Russian imports of grain made possible by the current commitment of Western nations to provide Russia with economic assistance in the form of credit and debt rescheduling.

India's demand for wheat is expected to grow strongly during the current decade due to continuing population growth and the likelihood of rapid income growth promoted by ongoing economic reforms and relaxation of trade controls. India imported wheat occasionally during the 1980s and the early 1990s to rebuild government stocks drawn down in years of low production, and this practice is likely to continue.

The Middle East has been one of the world's strongest growth markets for grains, with imports more than doubling over the past decade. The reconstruction of Kuwait, and continued income and population growth in the region more generally is likely to lead to an increase in demand for grain products in the next few years. A freeing up of credit to Iraq, whenever this occurs, would also lead to an increase in wheat imports.

Turning to feed-grains, increased demand for Australia's grain-fed beef products in Asian markets, together with lower Australian prices for feed-grains over the medium term, are expected to stimulate the growth of feedlots in Queensland and northern New South Wales. The number of animals passing through these facilities is expected to increase by almost 15% between 1992-93 and 1997-98, and a larger proportion of Australia's feed barley and sorghum production is likely to be used domestically. Malting barley exports are projected to increase, continuing the trend of recent years. Over the past three years around 80% of Australian malting barley exports have gone to Asia. China has been the largest single market, accounting for 42% of Australian exports. Taiwan, South Korea and Japan have also been important markets. Beer consumption throughout Asia has been rising because of population growth coupled with rapid growth in consumer incomes. This trend is likely to continue in the medium term.

Demand for Australian grain legumes is also projected to grow significantly in the next five years. Demand from the domestic feed sector is expected to increase significantly as pig and poultry numbers expand by 5% and 9% respectively in response to continued growth in Australian consumption per person of these meats. Export demand for lupins and field peas for feed will come increasingly from Asia (South Korea and Japan in particular) and the European feed markets. However, increased competition from soybeans in the European feed markets is likely to restrain the growth in lupin exports to these markets. Chickpeas for human consumption will benefit in the medium term from increased demand from India and Bangladesh. Pakistan is expected to remain an irregular but important buyer of Australian chickpeas.

Australian sugar production is projected to increase significantly in the medium term. Between 1988 and 1995, land assignments in Queensland will have increased by at least 41%, or over 140,000 ha. If all this additional land is planted to sugar cane by 1997-98, Australian sugar production could be 1.2 Mt greater than in the early 1990s when around 3.6 Mt was produced.

With the demise of sugar trade agreements between Cuba, Eastern European countries and the former Soviet Union and the gradual cuts made in US sugar import quotas, more sugar is now being traded at ruling world prices. The high costs of supporting inefficient domestic sugar industries are becoming more apparent for many exporting countries. Many sugar industries in the smaller Caribbean countries are struggling to survive, while restructuring of industries is underway in Mexico, Poland and Argentina. Over

the next three to five years, it is likely that low cost sugar exporters, such as Australia, Thailand and South Africa, will be well placed to take advantage of market opportunities. The bulk of these opportunities will arise in the Asian region. While both sugar consumption and production are expected to grow rapidly over the rest of the decade in this region, consumption is expected to grow faster than production, implying a further growth in imports to the Asian region.

Australia exports around 90% of its cotton. In 1991-92, 90 % of Australia's cotton exports went to Asia, with Japan, Korea and Taiwan accounting for around two-thirds of exports. However, the shift out of spinning and weaving of natural fibres that is already occurring in Japan and Korea is likely to accelerate, particularly if there is progress toward liberalisation of the Multifibre Arrangement (MFA). This Arrangement is a framework of 'voluntary export restraints' which regulate textile and clothing exports from developing countries to industrialised countries. Under the current Uruguay Round of GATT negotiations, there is a proposal for the MFA to be replaced by an 'Agreement on Textiles and Clothing'. This Agreement would provide for a progressive phasing out of all restrictions on textile and clothing products, including quotas. The largest impact of this trade liberalisation would be a shift of textile and clothing processing and manufacturing out of high cost countries such as the United States and the European Community and into the low cost developing countries within South East Asia, including China. Within Asia, Japan and Korea are expected to face increased competition from countries such as Thailand and Indonesia.

In the medium term, Australian cotton exports are likely to be redirected, to some extent, to expanding markets in South East Asia, particularly Thailand. With large expansions of textile processing projected to occur in South East Asia, Australia is well placed to take advantage of the expected increase in imports of cotton to this region.

Australian grape production is projected to rise over the medium term. Since the late 1970s the number of commercial establishments growing grapes has declined gradually while total grape production and bearing areas have risen. These changes have also coincided with a greater emphasis being placed on the production of premium red and white varieties, largely at the expense of non-premium varieties.

The considerable rise in the volume and value of wine exports that has been in evidence since the mid-1980s is expected to continue in the medium term, although at a diminished rate. The major markets for Australian wine are the United Kingdom, Sweden, the United States, New Zealand, Canada and Japan. The recent breakthrough in access to markets in the European Community for Australian wine will provide Australian winemakers with additional markets to meet the industry's proposed export targets of \$750 million by 1996-97 and \$1 billion by the turn of the century (compared with around \$300 million in 1992-93).

Prospects for livestock products

The gross value of livestock slaughterings and other livestock products in 1992-93 was \$11.1 billion, just over half the total gross value of farm production. Between 1992-93 and 1997-98 the volume of livestock slaughterings is projected to rise by 12%. However, reflecting in part a projected decline in wool production, the index of volume of livestock products excluding slaughterings is projected to fall by 6%.

The currently better prospects for cattle relative to alternative livestock enterprises such as wool are expected to provide the impetus for an expansion in beef cattle numbers in the medium term. Total beef cattle numbers in Australia are projected to grow from 21.1 million in 1992-93 to 24.3 million in 1997-98, and beef and veal production from 1.8 Mt in 1992-93 to nearly 2.1 Mt in 1997-98.

Australian consumption of beef and veal per person, which fell to 37.2 kg per person in 1991-92, is projected to increase marginally over the medium term as the pace of economic growth increases and the price of beef falls slightly relative to other meats. However, the bulk of the projected expansion in production will be exported.

The North Asian markets of Japan and South Korea, which accounted for 36 per cent of Australia's total beef and veal exports in 1991-92, are expected to assume greater importance over the medium term. By 1997-98 these markets are projected to account for around 44% of Australia's beef and veal exports.

Continued strong economic growth and an increasing consumer preference for beef are likely to stimulate demand for beef further in other Asian countries such as Taiwan, Hong Kong, Malaysia and Singapore. In addition, the large populations and high economic growth rates of Indonesia, China and other rapidly growing Asian countries, where beef consumption per person is currently low, make them potential markets for Australia.

The United States is currently Australia's largest single beef export market, taking around 48% of beef exports. In this market, quotas constrain total beef imports and import shares are established by agreement. Australian beef exports to the United States are projected to increase by 9% from their early 1990s level of around 360 kt (three-year average from 1990-91 to 1992-93) by 1997-98, but in relative terms the United States is projected to decline as an export destination. Nonetheless, the United States is projected to remain Australia's largest single beef export market, taking around 42% of total Australian beef exports in 1997-98.

Table 2. Medium term projections for Australian livestock commodities.

Commodity	Unit	1990-91	1991-92	1992-93	Three year average 1990-91 to 1992-93	1997-98	Percentage change 1990-93 average to 1997-98
<i>Beef and veal</i>							
Production ^a	kt	1 760	1 791	1 830	1 794	2 078	16
Exports ^{bc}	kt	1 053	1 135	1 145	1 111	1 336	20
Percentage exported	%	60	63	63	62	64	
<i>Mutton</i>							
Production ^a	kt	376	392	359	376	246	-35
Exports ^{bc}	kt	273	272	216	254	171	-33
Percentage exported	%	73	69	60	67	70	
<i>Lamb</i>							
Production ^a	kt	287	275	269	277	277	0
Exports ^{bc}	kt	46	42	50	46	39	-16
Percentage exported	%	16	15	18	17	14	
<i>Pig meat</i>							
Production ^a	kt	312	336	331	326	349	7
Exports ^{bc}	kt	6	6	9	7	7	6
Percentage exported	%	2	2	3	2	2	
<i>Poultry meat</i>							
Production	kt	425	455	467	449	540	20
Exports ^b	kt	2	4	4	3	4	20
Percentage exported	%	0.5	1	1	1	1	
<i>Wool</i>							
Production	kt	1 066	874	863	934	775	-17
Exports ^{bd}	kt	715	945	858	839	845	1
Percentage exported	%	67	108	99	90	109	
<i>Manufacturing milk</i>							
Production	ML	4 666	4 969	5 505	5 017	5 565	10
<i>Market milk</i>							
Production	ML	1 737	1 763	1 775	1 762	1 885	7

^a Carcass weight equivalent. ^b July-June period. ^c Shipped weight exports have been converted to carcass weight equivalents using the following conversion factors: beef 1.437, mutton 1.5, lamb 1.1 and pig meat 1.22. ^d Wool exports may equal or exceed production in some years because of drawdown of the wool stockpile.

Turning to sheep, pig and poultry meats, low wool prices are expected to lead to a reduction in the size of the national sheep flock, which will reduce Australian sheep meat production (wool prospects are discussed later). Mutton prices are projected to rise in real terms over the medium term from their current historically very low levels. Modest rises are also projected for lamb prices in real terms. In the pig and poultry industries, relatively low feed prices are projected to encourage increases in production of both meats. Pig and poultry prices are projected to decline slightly in real terms in the medium term.

Export demand for Australian mutton is expected to remain strong over the medium term, despite the projected increase in price. The fall in mutton production and higher mutton prices are expected to result in some decline in mutton consumption per person in Australia, with a slightly larger proportion of Australia's mutton production being exported. The more traditional markets such as the Middle East and Japan are likely to continue to account for a larger proportion of total shipments in the medium term.

After peaking at 1102 kt (greasy equivalent) in 1989-90 and falling thereafter, total wool production is forecast to be 863 kt in 1992-93. With the continuation of low wool prices during 1992-93 and beyond, wool production is projected to fall to around 775 kt by 1997-98.

Though lower now than at its peak of 4.6 million bales (811 kt) in 1990-91, the existing wool stockpile, forecast to be just under 4 million bales (696 kt) at the end of the 1992-93 season, is still large relative to annual wool production. Sales from this stockpile are also likely to add to supplies through the mid-1990s, offsetting, at least to some extent, the impact of declining sheep numbers and wool production on total wool supplies. Thus, despite expectations that wool production will fall further through the mid-1990s, wool exports in the medium term are projected to be around 845 kt (greasy equivalent).

During 1991-92, Italy was Australia's second largest export market for wool, accounting for 13% of Australia's wool exports. However, Italian purchases declined sharply in 1992-93 due to high interest rates and recession in the Italian economy, and marked instability in the value of the lira, all of which contributed to a low level of consumer confidence. Italian imports of Australian wool are projected to recover gradually in the medium term as economic growth picks up and financial markets stabilise.

Japan now imports a relatively high proportion of its wool in early stage processed form, in contrast to the situation twenty years ago when Japanese wool imports from Australia were mostly in greasy form. The reduction in early stage wool processing in Japan has come about as a result of the increasing competitiveness of wool processing undertaken in other Asian countries. This trend is likely to be accentuated in future by the prospect of more stringent environmental legislation, which may further restrict the wool processing industry in Japan and allow Australia to take a larger share of the Japanese early stage processed wool market.

China's important in the world wool market in all stages of the wool pipeline, from wool production to consumption of final products. Chinese import demand for greasy and early stage processed wool is expected to increase in the medium term in response to rising incomes in China and increased exports of textiles and clothing from China, reflecting the competitiveness of the Chinese textiles and clothing industries. In Eastern Europe, the demand for wool products is likely to remain low in the foreseeable future, given the severity of the slowdown in economic activity and the political and economic difficulties encountered in the transformation to market oriented economies. Wool consumption is expected to decline in these countries until at least 1994-95.

In 1989-90 the former Soviet Union accounted for 14% of Australian wool exports. However, since then wool exports to the region have fallen dramatically as economic activity in that region has contracted. Total incomes in the CIS are estimated to have fallen by 15% in 1992, are assumed to fall by a further 5% in 1993, and are not expected to register positive growth until around the mid 1990s. In addition, wool

production in the CIS is expected to fall again in 1992-93 after an 11% fall in 1991-92. With domestic production continuing to fall and imports remaining very low, the capacity of scouring plants is being under-utilised. If the decline in wool availability continues, these plants are likely to be closed and machinery will be run down. This decline in processing capacity may, in turn, restrict the growth in wool demand that otherwise would be expected when the economies of the CIS begin to recover in the latter part of the 1990s. On balance, there seems little prospect for a major resumption in sales of wool to the CIS over the next few years.

The new Commonwealth dairy marketing arrangements now in place will see the lowering of the maximum market support rate from a level of 22% above average export prices in 1992-93 to 10% in 2000-01. Nonetheless, the general trend of rising Australian milk production that has been in evidence since the early 1980s is expected to continue. Australian milk production is projected to reach 7450 ML in 1997-98, 2% more than in 1992-93. The increase in production is expected to come mostly from yield improvements, as dairy cow numbers are expected to increase only marginally over this period.

Although rising domestic consumption will absorb some of the expected increase in milk production, export volumes of dairy products are projected to rise over the medium term. The outlook in Australia's major export markets, and in particular Japan, remains promising. Consumer demand for dairy products in Japan is projected to continue to rise at a faster rate than domestic increases in production. Australia is projected to maintain a large share of this market, particularly for cheese.

Discussion

The prospects for individual farm commodities and developments in key export markets have been discussed above. There are also some global issues which will influence the prospects for farm commodities more generally, which include the pace of world economic growth and prospects for trade liberalisation under the Uruguay Round.

World economic growth is assumed to increase from around 2.6% in 1992 to 2.9% in 1993 and to range between 3.6 to 4.2% a year from 1994 to 1998, providing favourable prospects for a rise in world demand for farm commodities generally. This may assist in reducing currently large world stocks of some rural commodities such as wool, coarse grains and oilseeds. Real prices for rural commodities as a group are forecast to rise slightly in 1993-94, before resuming their historical long term downward trend.

In May 1992, prompted by concern over growing cereal and beef stocks, the adverse environmental effects of excessive use of agro-chemicals, including fertilisers, and the low purchasing power of farm households, the European Community announced changes to its Common Agricultural Policy (CAP) which were aimed at reducing the production of farm products in oversupply, particularly cereals and beef. In November 1992 the European Community and the United States reached a bilateral agreement known as the 'Blair House Accord' for reductions in domestic agricultural support.

The Blair House Accord probably provides the best indicator so far of the possible nature of an agreement on agriculture in the Uruguay Round. The main elements of the Accord include: tariffication of border measures and an average cut of 36% in tariff equivalents; minimum access for imports of 3% of consumption rising later to 5%; a 20% cut in aggregate domestic agricultural support; and reductions in the volume of subsidised exports and the value of export subsidies by 21% and 36% respectively on a commodity by commodity basis over the implementation period to the year 2000.

The overall effect on Australia of an outcome at the Round along these lines could be to increase Australian agricultural exports by \$600 to \$900 million a year relative to what would have been the case in the absence of an agreement, these gains being realised progressively until about the year 2005. However, because these reforms would not commence until 1994 and would be implemented in stages over the next six years, the benefits to Australian farmers, while positive, are likely to be small in the short term.

