CHINA – FUTURE OPPORTUNITIES FOR THE AUSTRALIAN GRAIN INDUSTRY

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• China Grain Demand
• Australian Production and Export Profile
• Australian Opportunities and Challenges
CHINA GRAIN DEMAND
Scale – China is BIG!!!............and getting bigger

- **471,875,000** Pigs live in China, approximately half of the world’s pig population
- **700,000** engineers graduate annually from schools in China
- **7 million** students graduated from Chinese universities in 2013; the number in 1977 was 270,000
- **48.5** percent of global steel production is Chinese (2014)
- **75** percent of the world’s toys are made in more than 10,000 toy factories across China (2013).
- **50,000** cigarettes consumed every second on average in China
- **800GWh** of electricity from renewable energy sources was generated in 2013 more than twice as much as the United Kingdom’s total electrical output
CHINESE POPULATION VS GDP

Source: Gapminder
GDP YEAR ON YEAR GROWTH
2016 Target of 6.5-7.0%

Source: Reuters
China is now attempting to move into a new stage of economic development that will feature continued urbanization and more attention to improving living standards for the entire population. Urbanization and rising living standards could prompt further dietary change, while the transition to larger-scale, capital-intensive modes of farming will likely promote use of feed grains in place of traditional locally-sourced feeds. Food safety incidents, disease epidemics, and attention to waste management provide further impetus to push production away from traditional “backyard” operations.
RURAL
Meat Consumption and Population

Source National Bureau of Statistics of China
URBAN
Meat Consumption and Population

Source National Bureau of Statistics of China
URBANISATION AND DIET CHANGES
Meat Consumption and Population

Source National Bureau of Statistics of China
CHINA MEAT CONSUMPTION

Source USDA
CHINA SOIL RESOURCES ARE IN TROUBLE

• China has 21% of the world's population, but only 9% of its arable land. Land available for cropping will decline by a total of 4.2% and pasture by 5.1 per cent over the period to 2050.
• China’s deserts are growing with about 4.5 billion tonnes of soil being eroded each year.
China Water Resources are in Trouble

- China has 20% of the world’s population but only 7% of its fresh water.
- “Water shortages threaten “the very survival of the Chinese nation” (Wren Jiabao – ex PM)
- In the 1950s the country had 50,000 rivers with catchment areas of 100 square kilometres or more. Now the number is down to 23,000. China has lost 27,000 rivers, mostly as a result of over-exploitation by farms or factories.
- China needs to reduce food production on its dry northern plains or aquifers will diminish to a “dire” level in 30 years
- “The government must adopt a new policy to reduce water consumption,”
GROWING GLOBAL FOOTPRINT

• State-owned China National Cereals, Oils and Foodstuffs Corp (COFCO) has set a target of sourcing up to 50 million metric tons of grain from overseas markets by 2020 to further ensure China's grain security, its Chairman Zhao Shuangliian said on Tuesday. These international markets include South America, Australia and Europe, he said.

• The chairman of New Hope Group Liu Yonghao, who has pledged to invest $500 million in Australian agriculture over the next three years said China's land was seriously overloaded with too much fertiliser having degraded the land.
CHINA DOMESTIC GRAIN PRODUCTION
CORN - PRICE PROTECTION
2008 - 2015

2 x Higher
CHINESE DOMESTIC PRODUCTION
Annualised Growth Rate since 2000

Source USDA
WHEAT - PRICE PROTECTION
2006 - Present
CHINESE GRAIN IMPORTS
Annualised Growth Rate

Source USDA
CHINA GRAIN IMPORTS 2016 – WITHOUT SOYBEANS

- Barley: 39%
- Sorghum: 32%
- Wheat: 21%
- Corn: 7%
- Oats: 1%

Source USDA
CHINESE GRAIN IMPORTS
With Oilseeds

11%
GRAIN & SOYBEAN IMPORTS 2016

- Oilseeds: 85.5%
- Barley: 5.6%
- Sorghum: 4.7%
- Wheat: 3.0%
- Corn: 0.9%
- Oats: 0.2%

Source USDA
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AUSTRALIAN HISTORIC HARVESTED AREA

10 Year Australian Harvested Area by Commodity

MT (000's)

Year

2005 2006 2007 2008 2009 2010 2011 2012 2013 2014*

Wheat Canola Barley
AUSTRALIAN HISTORIC GRAIN PRODUCTION
Annualised growth since 2000 = 1.5%
TOTAL AUSTRALIAN EXPORTS

Average 22.2M tonnes shipped since 2000
Annualised Increase = 2.8%
AUSTRALIAN EXPORT COUNTRIES
All Grains last 3 years

Source ABS
TOP 5 - BIG SLICE OF THE PIE
14/15 Season exports of all grain from Australia

Source ABS
AUST CHINA WHEAT EXPORTS V TOTAL CHINA IMPORTS
Wheat 30% annualised increase since 2008

Source: ABS, USDA, Chinese Import Statistics
AUST CHINA BARLEY EXPORTS V CHINA IMPORTS
Barley 35% annualised increase since 2008

Source: ABS, USDA, Chinese Import Statistics
AUST CHINA CANOLA EXPORTS V CHINA IMPORTS

Canola Growth 41% annualised from 08

Source: ABS, USDA, CBH Research, Chinese Import Statistics
AUST CHINA OAT EXPORTS V CHINA IMPORTS
Oat % annualised increase since 2008

Source: ABS, USDA, Chinese Import Statistics
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• Australian Opportunities and Challenges into China
DOES AUSTRALIA NEED CHINA?

- Chinese grain demand competes directly with increasing Regional demand for Australian grain.
- South East Asia total wheat import demand will increase 205% from 21mmt in 2015 to 39mm in 2025.
- To compare, Australia's annualised 15yr export growth is 2.8%.
- Chinas recent foreign investment highlights this regional competitive threat.
- Subsequently, China will need to provide VALUE for the Australian grain industry to focus on it as a key trading partner.
CHINA - RISK / REWARD??
Challenges when doing business with China

• Whilst the Free Trade Agreement facilitates demand the risk of trading grain into China needs to be managed;
  – China Govnt Policy can change overnight and expose marketers and markets to HUGE losses.
  – China has many levers they can pull to control the flow of imports – creating a high risk trade environment.
  – Chinese customers can be a challenge, defaulting on contracts when prices move significantly.
  – Recovering “awarded” monies in China is a slow, expensive and often impossible task.
OPPORTUNITIES BY GRAIN

Wheat

• Limited growth opportunities given;
  – Domestic production is unlikely to drop from current
  – Quota system tightly controls imports
  – Demand growth in SE Asia provides alternative opportunities for Australian wheat
  – China is price sensitive
  – China import protocols are strict, and subjective (snails and weed seeds)
OPPORTUNITIES BY GRAIN

Barley

• Limited growth for malting barley, given Australia already dominates imports and demand growth is small (linked to beer consumption).
• Feed barley exports to China could sustainably replace the Middle-East as our “base-load” buyer, given;
  – China stockfeed industry is now familiar with our product.
  – Prices are competitive to corn
  – Australian low moisture quality is preferred
  – The Chinese stockfeed total demand will continue to grow
OPPORTUNITIES BY GRAIN
Canola

- Limited growth opportunity for Australian growers given;
  - Canada continues to dominate global GM exports.
  - Chinese buyers refusal to pay quality (oil) premiums.
  - EU continues to pay quality premiums for Australian Non GMO, and GMO canola
  - China continues to ban exports from the Albany and Adelaide growing regions.
OPPORTUNITIES BY GRAIN
Oats

• Strong opportunity for Australian growers and future oat export growth to China given;
  – Chinese demand for “clean green” Australian oats continue to grow at >10% per annum – as forecast.
  – Regional (SE Asia and India) demand for Australian oats continues to grow as forecast – increasing competition.
  – Australian quality continues to suit demand, with low moisture and higher test weights.
  – Premiums continue to remain high.
  – Production increases in line with demand, not too fast.
OPPORTUNITIES BY GRAIN
Oats
THAT’S A WRAP

• China’s growing demand for grain imports will continue to provide opportunities for Australia, leveraging off our high quality products.
• Free trade tariff concessions must be passed on by Chinese buyers to ensure they are competitive with other regional Australian customers.
• Limited Australian grain production growth dictates growers will align their future production and sales programs into markets providing the highest sustainable value – China must meet this key criteria challenge.