

Commodity Marketing and Value Adding

Wheat production and marketing, biofuels in Australia and
global trends that could shape our markets

A report for



By: Simon Tiller

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Foreword

My plan is to achieve higher profit margins for my familys' farming business and through my study, I hope to learn how farmers overseas are doing this. The trends are similar all over the farming world; farmers are not getting enough money for their products. This is mainly through management, policy, and seasonal conditions. As a wheat producer, I also believe that "The world is not paying us enough". Also phrases such as, "The world doesn't appreciate its farmers" and farmers saying "When the world runs out of food they will all be sorry". This is the single biggest gripe in the farming world and the thing that strikes me is that it does not seem to matter too much where you are in the world or how you farm, these sayings back to the same thing, not enough money.

In my travels, I stayed with many farmers through the seven countries I visited. I started noticing a similar trend from early on in my trip. The trend was that 1 in 10 people I stayed with were considerably wealthy and very happy with the profits they were receiving from agriculture and general business. However, these people were not necessarily in reliable rainfall areas or in great farming nations; some of them weren't even large scale farmers. Not all of them had debt, some ran their farms out of cash, some of them were value adding their commodities and some were not. The single thing that set them apart from other farmers was that they were business people. This meant they were able to set aside the emotion and traditional thinking, and were seizing opportunities, even if they were outside the norm.

In my report, I will share my observations on the farmers and agricultural nations I visited and provide my thoughts on why ten percent of farmers globally are not complaining about their profits. I will also outline what I think are the first steps in increasing profit margins for wheat producers in Australia.

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Abbreviations

MLA Meat and Livestock Australia

GRDC Grains Research and Development Corporation

USDA United States Department of Agriculture

USA United States of America

GM Genetically modified

CBOT Chicago Board of Trade

CBH Cooperative Bulk Handling

R&D Research and development

WA Western Australia

HA Hectare

BU Bushel

ASX Australian Stock Exchange

WTO World Trade Organisation



Figure 1: “The wet market”, all part of the China experience.

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Executive Summary

The intentions of my travel and study were to find the real profit drivers of successful farming businesses around the world, and define which direction our family business should take:

1. Issues/Problems/Questions

- 1.1. Shrinking Profit Margins for Australian Grain Growers
- 1.2. Uncertainty in our current Export/Marketing System
- 1.3. A struggling domestic market/feed grains
- 1.4. Uncertainty over biofuels and their ability to profit Australian Growers
- 1.5. Are value added products the way to go?
- 1.6. What will be a sustainable farm going forward
- 1.7. Where does Australia's future lie in terms of grain trade?
- 1.8. How will GM increase profit margins?
- 1.9. Commodity Market Roller Coaster
- 1.10. Basic Farming Economics

2. Findings

- 2.1. The rest of the grain growing world is under the same squeeze
- 2.2. Our exporting system and facilities in Western Australia are deemed by many of our off shore counter parts as being the most efficient in the world.
- 2.3. Domestic trade is underpinned by world pricing no matter where or how much is traded
- 2.4. The biofuel industry in the USA is subject to commodity market volatility and policy change in that exact order, it's not a sure thing
- 2.5. Value adding a commodity such as grain in any sense is another business entirely and there are rules and research that go with these types of businesses
- 2.6. A sustainable farm and farming business needs to take into account the environment, succession planning and many other things but the first and foremost survival tactic is to make lots of money, then there isn't much you can't overcome.

- 2.7. I observed many crops, and visited many farms and we as growers and are well poised in terms of quality and demand
- 2.8. It will probably take five years to see a profit, from growing GM crops
- 2.9. We must improve our skills and strategies in regards to commodity markets and revise where we prioritise our time to capture more profit
- 2.10. We must scrutinise our own businesses with consultants and outside help more often and more thoroughly in order to maximise our returns

3. Recommendations

- 3.1. Take it upon yourself, don't blame everything else
- 3.2. Believe in the system and help make it bigger and better
- 3.3. Take the time to understand your markets
- 3.4. Support the use of biofuel but don't be talked into it, find out yourself
- 3.5. Value adding is great but don't get into it if you are going backwards growing a commodity, that won't work
- 3.6. Keep it real, aim for good profit margins, don't get too caught up in the carbon debate, try to balance family, profit and the environment
- 3.7. Support your researchers when it comes to biosecurity and end use characteristics, they are doing a great job and need more funding
- 3.8. Embrace GM but do not abuse it
- 3.9. Although we call ourselves wheat growers, we are actually commodity producers. As it is traded on CBOT, it is not a food in this form and people don't pour milk on it and eat it for breakfast. These commodity markets rise and fall regardless of supply, take the time to learn these markets and get advice on how to protect profit margins through hedging strategies.
- 3.10. We are one of the world leaders in precision agriculture and innovation but we have shrinking profit margins and rapidly increasing farm debt. Get back to basics and drive profits or you may not survive!

Introduction

Background to the Tillers farm

I, Simon Tiller, am a second-generation farmer in Esperance on the south coast of Western Australia (WA). Born in South Australia's (SA) mid north region my family and I moved to the west when I was 16 years old. I had already been working on the farm for one year and moved to the west six months before my parents because of a severe drought in SA. The drought was one of many reasons for selling our 600 ha in SA, and moving to the west for what we were hoping to be a much more prosperous future in farming. This is where we first learnt about no-till farming and farming sandy acid soils in the year 2000.

A steep learning curve in both farming and life in general continued through the first two to three years of living in Esperance, where I met my wife Felicity and married in 2004. After five years of marriage and working on the farm, we have a seven-month-old son Lachlan, and we own and operate 7000 ha in the Beaumont region, east of Esperance. I run the farm with staff employed to carry out day-to-day operations. Although Mum and Dad recently retired, the business is still a family concern. The main income stream for the farm is continuous cropping comprising of wheat, barley, canola and field peas. We have other business interests such as commercial grain drying, grain cleaning and commodity hedging and grain marketing.

I have always strived to be a successful farmer. I have been taught (or learnt the hard way) that if you have a problem or something does not work, fix it and get on with the job. Do not complain that it is too hard or it was not your fault. I firmly believe that no one ever achieved his or her goals by doing this.

I want to make the most of my time as a farmer, by providing a vibrant and sustainable workplace, and opportunities for my staff and family to enjoy and prosper in. I want to farm sustainably so that future generations will have the best opportunity to continue farming. The Nuffield scholarship was the perfect opportunity to study and ground truth some of my ideas and beliefs around modern agriculture.

Increasing profit margins for Australian wheat growers

A part of me is sick and tired of hearing the same thing. That input prices are eating our profits, machinery is too expensive, the big corporate are crushing us, all our workers are

leaving and going to the mines, and the market is down on wheat because of oversupply; all I hear is a group of farmers whinging.

My theory has always been that if the farm is making enough profit the workers won't have to go, and if the profit is there we can absorb spikes in input prices. My only problem was figuring out how I and other farmers in a similar situation could make this theory work.

Finding out how farmers around the world achieve good profit, I thought would solve most of my problems. Most things that are going wrong in the farmers own little world are a direct result of the farming business not having enough; by this I mean not enough staff, inputs, storage, too much debt, not enough time for family, and so on.

I had my own ideas about ways to increase profit such as value adding, biofuel, marketing, GM crop, and many others at the beginning of the scholarship. I needed to learn more about these ideas and get a better perspective on these opportunities presenting themselves to the Australian Grains industry.

Scholarship objectives

I will define the opportunities outlined (value adding, biofuel, marketing and GM crops) and give my thoughts on which would be most beneficial to my business and where they fit in the overall grains industry.

Uncertainty surrounding our current export system

Defining the problem

There had been much press and media coverage surrounding the fall of our single desk marketing system in Australia. In recent months, our Western Australian logistics and grain handler Cooperative Bulk Handling (CBH) has come under much scrutiny on whether to quit the cooperative arrangement. This and the single desk issue seem to be at the top of most Western Australian wheat growers agendas. To measure our export system against others, I travelled to the US to see how the open market system worked. I could then compare it back to the single desk wheat pool in Australia. I also wanted to see how other cooperative grain handlers worked and benefitted their shareholders.

CBH is a successful model

After visiting facilities that our overseas counterparts use I feel CBH are doing us a great service and the price we pay is extremely cheap. We have some of the best facilities in the world for loading wheat onto ships in WA and we should be proud of it. Maybe if growers were making more money out of their marketing they wouldn't be worried about CBH's fees, we may have killed two birds with one stone by dismantling the single desk. The single desk national wheat pool system for grain marketing has left a deep and burning hole in our farmers' pockets. It has not kept pace with rising input costs but this problem cannot be wholly blamed on the AWB. As farmers we have failed to do something about it as well. After visiting overseas grain handlers, I no longer think that the CBH issues are big picture. The UK and some US cooperatives I visited were not as successful as our own CBH. As far as I could see this was because their cooperative structure was not proactive enough to make timely decisions. In addition, their structure didn't allow for external capital, which I think is needed.

Single Desk Marketing System vs hedging/Cash selling

The single desk wheat pool is simply hedging on a larger scale than one farm. The single desk wheat pool had been costing growers millions of dollars in lost revenue in Australia. From my overseas study, I learnt that a single desk is not a common method of selling grain overseas. In Australia, growers commit to the national pool via a signed contract. The pool manager then hedges a portion of that wheat by selling into the market, wheat usually goes through the Chicago Board of Trade (CBOT). At this stage, the pool manager has no idea on production and sometimes no idea if the farmer is a good, average, or poor grower. With a mixture of growers and seasonal differences over the pool growing area it is too hard to look after every individual grower needs. With pools as large as the ones run in Australia, you can see that it is impossible to cater and hedge pools successfully. Bearing in mind that under-hedging is just as costly as over-hedging.

Recommendation

After my study tour through USA, my advice is to not be afraid of hedging. It is simply running your own personalised pool tailored to your farm and your seasonal differences. Always seek the best advice possible, and if you want to increase your profit margins, you need to develop a marketing strategy that does not involve pools.

Struggling Domestic Market

Defining the problem

After staying in the UK for two weeks, I soon discovered that UK farmers have no price advantage by having a domestic market. The UK is traditionally a non-export market; however, their price risk as a nation that consumes over 75% of their wheat is the same as our price risk in Australia. In addition, there is no advantage to selling in pounds compared to Australian dollars.

The domestic wheat market in the UK fell 65% between January and September 2008, exactly the same as CBOT and Australia's export price - what a coincidence, no insulation whatsoever. I spoke to a producer in Victoria upon returning home about hedging their wheat last year and in return he replied, "Yeah but we sell to the dairy farmers and it's the domestic market". I then asked him, "So the dairy farmers are paying around the same price as last year are they?" His answer was "No, they are paying nearly 65% less than last year". In reality, it makes no difference whether you are selling into the domestic or export market, as the domestic price always tracks the export price. In addition, the export price is benchmarked from the Chicago wheat futures.



Figure 2: Even though most of the UK crops were badly weather damaged, they were still being used for milling and general purposes. This would not be deliverable in Australia.

Recommendation

With this in mind you can see that no matter how big our domestic market grows, we will always be priced by CBOT, as are growers in the UK (and most other places in the world).

Even if we could sell more domestically (for example to biofuel refineries), they will most likely never swallow all of Australia's grain crops. Even if we could absorb all of Australia's grain crops domestically, we would end up importing cheaper grain and exporting our better quality grain. My point is biofuel will not improve the struggling domestic market. As I mentioned above, the only time grain sellers are making big money selling is when CBOT futures are up at seasonal highs.

Australian farmers can work closely with grain merchants to develop better products (i.e. futures / currency / basis products) to market their basis for wheat. This will then enable growers to market their basis up to two years forward, like Canadian and American farmers. This could add up to \$50 per tonne in a wheat growers pockets in a given year.

Value adding to benefit the wheat grower

Defining the problem

When I discuss value adding, I am talking about something as basic as grading or drying the grain. For the wheat farmer, this is a very easy way to value add to the grain. The next level up is to convert that grain into another product, for example using grain in a feedlot, or making biodiesel from canola. However, this involves a different approach to your business, because it involves selling into another market and dealing with different suppliers and even different staff (or same staff but a different skill set) to create the product. I wanted to value add to my grain because I wanted a better price for my grain than I was currently getting. I currently value add by grading and drying my grain, but how worthwhile was it to invest more seriously in value adding?

Successful North American grain producers are not feedlotters

Some of the business types I visited were feedlots, biodiesel refinery's, ethanol plants, small flourmills and so on. For Australian wheat growers in the mixed (cropping / livestock) zone, the main value adding opportunity I could see was feedlotting and I saw plenty of that in the USA and Canada.

North Americans have a different attitude toward business, they concentrate more on the grain market, and less on daily weight gains and other things considered small picture. Many feedlots in Australia start when commodity producers are frustrated with low prices, so they value add by feeding the commodity such as wheat through the feedlot so they return a profit at the end of the year. This is not the case in North America. Why do all that work producing wheat (the commodity) if there is no profit; you have to store it for up to six months, then put it down a cows neck then send the cow to market then you have to wait until the cow weighs out and finally you get paid. No wonder it is hard to make money.

Most farmers in this position would not produce the commodity and just feedlot or vice versa, if the farmer is a good marketer with corn or wheat futures, he just sells the physical grain to the feedlot and everyone goes home happy. The key for any value adding business is defining what the objectives of the business are. Most successful value adding business, be it farmer owned or not, take a commodity such as wheat, corn, or canola and turn it into a value added product such as beef, chicken, lamb, weetbix, biodiesel, cornflakes, or even converting milk to cheese. The point about all these types of businesses is that they still involve a commodity market but the business is simply buying the commodity and not selling into it. The risks are still similar but far worse and more complex; you now have many different markets to look at if you enter the value-adding arena.

What does the cost of cornflakes have to do with farming?

Farmers are often blamed for high food prices when I have found that there are many other outside influences that inflate the cost of food. The fact that farmers' costs such as fertiliser have increased by over 13000% over the last 30 years and we are still able to make a profit clearly shows how resilient we are.

- In 1980, it cost the manufacturer approximately 2c for the corn in each box of cornflakes.
- In 2009, it cost the manufacturer approximately 5c, a 150% increase over the last 29 years.
- In 1980, a box of cornflakes cost approximately 25c per box.
- In 2009, that same box costs over \$2 per box. That is close to an 800% increase in price.

It is not the cost of corn that has driven this cornflake price increase, the higher price is due to increasing costs such as marketing, advertising, R&D, supermarket shelf space, labour, fuel energy costs, packaging, product testing and sensing and so on.

All these things have a far greater bearing on the cost of food than the actual commodities that we produce as farmers, and many farmers I talk to do not understand this. Bread is similar to the cornflake story with around eight to ten percent of the price of a loaf of bread being the cost of the grain. No wonder those farmers were happy to turn their corn into fuel!

So depending on the value adding venture, the risks associated can be far greater than the commodity production risks. However if you are already profiting nicely from commodities you will almost certainly have a good chance at some position in the value chain.

Cellulosic ethanol

The other complexity that we are witnessing is when a commodity is turned into another commodity, such as the corn to ethanol scenario. This is a disaster for the ethanol plants that have bought corn at 600c per bushel, stored it and now it's worth 450c per bu. Whatever way you look at it they have lost money unless the cost to the business is hedged in some way.

Then you have your competitor - crude oil with a 65% reduction in its commodity futures market to add to your troubles, freshly made gasoline from crude oil that costs less to make than bio-ethanol and it hasn't even been made yet. No wonder the plants are beginning to go broke and that is with the government kicking in some money. Imagine if they had to stand on their own two feet? Still think biofuel will make it big in Australia?

It has the ability to, but it may need to be a different technology or in a different millennium. I see great potential for cellulosic ethanol in some regions of Australia, there was quite a bit of research happening overseas in various countries I visited. The key to it all is the products used and the economics. I thought straw showed the most promise for cellulosic ethanol, at Washington State University. The straw had nil value to the farmer and in some situations farmers paid contractors to bale it. The contractor would get to keep the straw as a bonus. This was common in parts of Canada as well.

The university estimated that the straw could not exceed US \$40 per tonne or else the commercial viability was flawed for cell ethanol, fine if it is free but what is straw worth to you on your farm? This was when crude oil was \$100 per barrel, most farmers rejoice when the price of fuel comes down, once again you need to know your numbers and know the risks.

As an example, for Western Australian conditions every time we remove straw from the system, it is costing us US\$70 a tonne in nutrient replacement value. Because our soils are fragile and light, we need the straw to bind the soil together until the beginning of the growing

season, so we do value our straw. This is a good technology but because of our fragile soils I don't think it is viable for Western Australia. It may work in some parts of Australia where straw does not have any value to the farmers' soil; I suspect that less than ten percent of Australian farming soils fall into this category. Therefore, I don't think there should be heavy investment in this technology.

The "food for fuel" headlines around the world that you read in the paper that are directed at the USA in a negative sense, are at the very least misleading. The US last year converted approximately 35 million tonnes of corn to ethanol, which is 12% of their production, or four to five percent of global corn production. If corn yields are good this season the US will produce an extra 60 million tonnes of corn. This is mainly due to larger plantings on the back of soaring corn futures in the previous season. There is not enough capacity to convert even half the extra production to ethanol, therefore this will mean more corn on the market.

There was much speculation in Chicago Board of Trade corn futures market last year due to ethanol and media but the real facts are that four to five percent of the world's corn production into ethanol is not enough to tip the balance of demand and certainly is not to blame for starvation. The USDA says that there have been many influences on global supply and demand of corn that weigh much heavier than a four to five percent swing in usage.

Recommendation

Biofuel will have a future in Australia if our government gives tax relief to the biofuel industry. The one thing that has fundamentally changed the outlook for the biofuel industry is the price of crude oil, especially when we are in the middle of a global recession.

If the cost of fossil fuel is cheaper at the pump and consumers are financially challenged over the next five years, the choice for them between the warm and fuzzy feel of biofuel or paying their mortgage for the month I am guessing that they will fill their tanks with fossil fuels.

Future for Australia's Grain Trade

Defining the problem

Where does Australia stand as a grain-producing nation? How sustainable is the Australian grain trade? What do the implications of these questions have on the average grain producer, and on the longevity and sustainability of my family farm? Australia produces approximately 35 million metric tonnes of soft agricultural commodities per season; in comparison China

produces nearly 500 million tonnes. It was clear to me that Australia is an insignificant grain producer compared to China and the USA.

I had always thought of Australia as being a big grain producer, but instead I found that we are almost a niche player on the world stage. What is encouraging is that Australia is held in high regard for our exceptional quality and high export standards. With many developing countries wanting to improve their standard of living I found there was a growing demand for importing high quality wheat into areas such as China. However, it was more difficult to pin down what the Chinese defined as high quality.

The Chinese define high quality wheat as wheat suitable for noodle production. While on my travels, I was shown many graphs and slides from different companies that revealed demand for quality wheat was there and they were willing to pay for it. This trend was similar for the malt barley market, with Australia having a very good reputation for hygiene and continuity of supply. The Australian harvest just completed clearly shows the world will pay for quality; I am relating this to the barley market where we saw record price differences between feed and malt. This was due to barley giants such as the Ukraine having too much rain at harvest.

Recommendation

Even though Australia is a small grain producing nation compared to China and the US, we produce even lines of quality product. This is our point of difference and how we can best keep our market share. Because of how small we are, the prices we receive as growers are dependent on how larger countries' harvests go. We will most likely see low prices at harvest if larger overseas grain producing nations have a drier than normal harvest, meaning they will produce better quality (less weather damaged) grain.

Forward sales are a definite tool to use under these circumstances, especially locking in spreads between grades. But as growers we need to find out for ourselves what is happening globally with quality and quantity, especially leading into the overseas harvest period. Don't be talked into or out of positions by grain traders.

Industry sustainability

Defining the problem

In Western Australia, CBH has a vital role to play in maintaining a sustainable industry. This has a flow on effect to stabilising and sustaining the family farming operation. CBH can do

this by providing R&D into hygiene and insect solutions and completing the link between the grower and the trader. I feel that for our long-term viability a co-op such as CBH needs restructuring into a more corporate model to ensure it is a player in the WA grains industry for the medium to long term. As a company, the CBH group will be able to expand its capital base into areas apart from agriculture, thus providing more liquidity and less seasonal finance. The WA grains industry needs the CBH system, but CBH needs to be restructured.

The same rules apply to the farming business; build on your liquidity and capital to rely less on seasonal and harvest finance. If you don't have any debt you don't have to grow a crop, what better way to create some demand for your product? There are very few farmers in the world that can do this and for some of us it will never be a reality, but for many of us it would have been nice to sit on the fence when feed barley was \$70/tonne.

I think for the long-term viability of the family farm many of us need to slow the growing rate of farm debt. If we are truly getting better at farming, shouldn't we have less debt than ten years ago? We will also need a stronger line of credit in the future for marketing and hedging purposes, which is very hard to get if you are too heavily borrowed. Remember the national pool used to do some hedging for you and now you need to do it yourself which is why you need a line of credit or cash in the bank.

If you are fully borrowed to buy out the neighbour when wheat prices were really good last year, you wouldn't have had enough credit to hedge, and no one else is going to do it for you. The price then fell \$150 per tonne, suddenly your budget is \$350/ha worse off, oops lucky we bought that farm. This is the trap that the deregulated market has set for many growers; the solution is not to get bigger. Australia has some of the worst profit margins per ha in the world for wheat, with a very high cost of production and in many cases over capitalised in farm machinery. Too many farmers are relying on capital growth and not liquidity.

Recommendation

The WA grains industry needs the CBH system to remain stable and sustainable, but CBH needs to be restructured.

We already have a high quality product, all we need to do is protect our biosecurity with plenty of R&D, get our marketing right and spread our wealth into some different assets or enterprises. The rest will come naturally as long as every one in the industry works together. In my view we have all the makings of a great industry that doesn't need to over complicate

things, we have few restrictions, our quality assurance schemes are evolving and working, there is still plenty of levels where young people can enter the industry. Farmers should work on supporting CBH, and vote for a restructure, so that CBH can work for the farmer and stabilise the industry into the future.

Building storage on farm and steering away from the CBH system would be crazy at this point in time for the average sized wheat grower, it increases debt in a big way and doesn't cut any costs to your farm, it would be a waste of capital.

It will also cost you more in interest if you try to export yourself. CBH's policy is a maximum of 30-day payment on cash contracts and that grain that you have delivered could take eight months to get to the buyer, but you are already paid when you go through CBH.

You have also removed your farm from risks of biosecurity and payments.

Stick with CBH unless you grow enough grain to load a ship your self!

Genetically Modified crops can have a role in Western Australia

Defining the problem

The GM debate is well and truly alive in WA. There are two trains of thought on genetically modified (GM) crops. From a farmers perspective they can be 'for' the technology, meaning they can see the benefit in reducing the need for insecticides and herbicides, and the potential for increased yields. Farmers 'against' the technology are worried that GM's will reduce their returns by losing export market share and that they will lose a point of difference from other world sellers.

Most of the GM information I found on my study tour, was from Canada and the US. I was surprised at how well Canadian farmers were doing with the technology, over large areas of canola. From these discussions, I think GM crops would fit well into our rotations. For the average farmer, GM technology won't be a saviour, but for good farmers it can be another management tool.

GM crops will fit into WA rotations, especially GM canola and probably down the track GM beans and lupins. For our farm on the south coast of WA, many varieties of GM summer crops will also have potential and a chance of providing economic returns. The message is simple and quite clear from my standpoint; GM crops will not be your saviour, if you are

going broke, you will continue to do so. What I see GM crops doing for farmers that are good managers, is providing another tool, and making management decisions easier.

I see advantages in accessing new gene pools and faster introduction to the commercial seed market. I think it will be five to ten years after GM crops are allowed to be grown commercially, when we will see some exciting genes and varieties tailor-made to suit different regions and markets.

In Canada, I observed growers growing a Cargill owned and marketed canola, it had near zero Trans fatty acid content and USA couldn't get enough of it as a healthy alternative to traditional frying oils such as cottonseed. Growers would receive US\$100 per tonne more for this canola, commercially grown across Canada. This was made possible by GM technology, and this is just an example of the opportunities that I see for GM if we treat the technology with respect.

Figure 3: Genetically modified canola in Canada



Recommendation

GM crops are a very controversial topic of discussion in Australia. While I can see both sides of the argument, I truly believe that GM crops have a place on the Western Australian farm. We as farmers need to be more organised and fund a campaign that tells the consumer the home truths about GM crops.

Corporate farming

Defining the problem

Corporate farming is when a publicly owned company runs a farm, operating it with external capital via shareholders. Much like the biofuel buzz last year, local farmers were starting to discuss the impacts of corporate farming. Two laps around the world studying agriculture gives me a very sound understanding of how fundamentally different Australia is to the countries where corporate farming has been relatively successful. The difference in climate, markets, crop types, and general farm costs are different to the highest extreme. I see Australia's wheat farmers as the highest cost to income ratio in the world on a per hectare basis, taking export tariffs into consideration. Scale is obviously how some wheat growers have formed a sustainable enterprise, others have gained skills in better marketing and hedging practices, but the main tool I see in Australia for managing risk, variance in rainfall and markets, is equity.

Wheat farmers in Australia go through some of the worst droughts, frosts and basis volatility and some of our counterparts still cannot work out why or how we keep on with it. One of the things that help us get through this is that Australian and New Zealand farmers have the highest rate of land ownership in the farming world.

Unless the corporate farming structure is tailored to Australian conditions and climate we cannot expect it to work, we also lose the ability to cushion the business against drought, frost and market volatility. Countries with lease rates of less than one-third of the average in Australia and production levels that are more than double, have a much better chance of providing liquidity and a return to shareholders.

Countries such as Russia, Ukraine and Argentina have benefited from corporate agriculture through infrastructure development, with more jobs and opportunities for local people. The real situation in Australia for a publicly funded company is that the shareholder does not understand a 60% correction in the wheat market or a drought, the average investor will not hold the share for 2-3 years without a dividend and there may be no dividend to give.

This scenario is very apparent in the ASX at the moment, no dividend means a sell off and if the outlook is bleak in the short term it can mean heavy reductions in share prices which affect operating capital for the farming business. This is right when you need the stability of equity to get through a rocky patch. Again, like the fuel scenario people won't hold shares if the roof over their head is threatened.

The commodity price roller coaster will be with us forever and as farmers and consumers, we will ride with it as we farm; it is the same as managing for any other risk to the business such as drought, frost or flood. There is talk of governments changing the rules on some financial markets in which we operate in but it probably will be debated for at least five years and even then, they probably will not be able to agree on any thing, much like the WTO and the rest of the political world. The key for farmers is to play the game by the rules you are given, do not try to change the rules! If you spend all your time trying to change the rules, you are not in the game!



Figure 4: Soybean no-till trials in Nebraska

Recommendation

Corporate farming is successful in other countries. In Australia, unless the corporate farm is structured to suit Australian conditions and production capabilities, shareholders will not come on board a corporate board set up. I have seen many corporate farms come and go in my area and I am only 27 years old. Corporate farmers don't work because they are too slow to react and are top heavy in management. The key for farmers is to play the game by the rules you are given, don't try to change the rules! If you spend all your time trying to change the rules you're not in the game!

This goes for the corporate farming model in Australia as well, I have witnessed too many failures to ever believe it can work, no matter how you try to reinvent these theories. The overseas exposure really put this idea to rest for me.

Conclusion

I now know that the rest of the grain growing world is under the same price squeeze as Australia. We cannot change what price we are paid for our products. By selling into a domestic market rather than an export market will not change our price paid, because domestic trade is underpinned by world pricing. As farmers we need to maximise our income by different means. Value adding is one such way. I think that if your management is up to scratch and you have liquidity in your farm, value adding to your grain could be beneficial. But again, farmers need to remember that value adding is another business and to do it properly means investigating the different markets and handling the different staffing and infrastructure requirements before getting started.

To move into the future the wheat industry in Australia needs to focus more on price setting both inputs and exports. This can be done by employing new tactics and staff to run the day-to-day farming practice. Taking more time by setting goals and employing these tactics will ensure growers can provide themselves with a reasonable return and be in control of their own destiny.

So what are some of these tactics? I refer back to the Cornflake story. The people making cornflakes are not about to go broke, in fact their profit margins are probably better now than they ever have been. They have employed new marketing strategies and grown their business to achieve an economy of scale. We as farmers will always be price takers but how about taking a decent price for yourself and not leaving your profitability blowing in the wind. Set your farm gate price according to the cost of growing and in the off chance that your costs exceed your income, do not expand your business because it doesn't make economic sense to do so. It is a phrase that I love to quote "The definition of insanity is doing the same thing over and over again and expecting a different result" I feel we could say much the same about our wheat marketing in five years from now if we haven't sharpened our mindset as an industry.

Report Recommendations

- For those farmers planning to produce wheat in the future, my message is simple. Get on top of your marketing or you will not have a future!
- Use consultants and pay for expertise that you don't have, to scrutinise your business.
- To be successful all farmers should create a five year business plan, and if you are a commodity producer that wants to value add you will need a five year and a ten year plan, to capture the new farm enterprise.
- Your five year plan should contain solutions to threats to your business, for example what would you do if you choose not to grow a crop or if your crop fails, how will you pay your interest? What will you do with your staff? To be sustainable the answer can't be to sack them – your business is destined to fail.
- You need to have an alternative plan, a 'Plan B'. Of the farmers that I stayed with overseas, some had building contracts, others had mining contracts and others just had the plain and simple but very effective cash reserves. These were all very competent and astute farmers.
- Farmers in the wheat industry also need to work a lot harder with marketers to produce marketing products that suit their business needs.
- Support CBH and think twice before borrowing heavily into storage as it could cost you more than you are anticipating
- If you are in a reasonable rainfall area and you grow wheat you can increase your profit by at least 30% if you sell before you plant.
- Don't underestimate the cost of exporting wheat.
- Don't be fooled into thinking that capital raised on the share market is cheap money to go farming with, the best money for your farm is from your bank and if you can't get the money from them you have a major problem in your business.
- Spread the word that GM crops will be here to stay in Australia.
- Farmers should concentrate more on economics and concentrate less on new fads and hype that revolve around precision agriculture and expensive machines, carbon trading and other things of this nature, they simply don't make money

- If you are looking for a handout in regards to the carbon you are storing on your farm, you will go broke!
- Look to provide your farm and industry with liquidity and not growth over the next 5-10 years, it will be a much better model in the long run.
- Stop whingeing about the cost of levies to the industry. R & D for our industry is going to be vital for the future. Just concentrate on making more money so the levies wont hurt your hip pocket.

Plain English Compendium Summary

Project Title:	How does the farming business achieve better profits when producing commodities?
Nuffield Australia Project No.:0810	
Scholar:	Simon Tiller
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Objectives	To investigate the ways that overseas farmers made above average profits as commodity producers. To investigate value adding, biofuels, marketing and GM crops and their role in the Australian grain industry
Background	I am a young farmer, passionate about creating a vibrant, sustainable and productive farming environment for my staff and family. Having already invested in grain value adding on farm, I wanted to learn if this was a good opportunity for other farmers in the Australian industry, and if we were progressing our farm enterprises in the right direction. I have always wanted to investigate this topic from the time I started farming. This scholarship gave me the perfect opportunity to more indepth study.
Research	The research that I chose to undertake consisted of 12 months of travel including visits to New Zealand, Ireland, France, China USA, Philippines, Canada and the UK
Outcomes	I believe as commodity producers in Australia we are spending too much time concentrating on the small things such as precision agriculture, varieties, and inputs, and not enough time reviewing the farms basic economics and marketing strategies. Successful farmers can move into value adding IF they have the capital, are already competently managing their current enterprises, they have researched the new market, and understand the risks and implications for their current infrastructure and staff. That GM crops can have a place in WA and Australia, if we learn from Canada's mistakes.
Implications	Farming for the future means treating your farm as a business, and removing the emotion and traditional hang-ups associated with your industry. Farmers need to plan for five and ten years out, and not only consider the benefits of progress (for example value adding makes you more money) but also the risks and threats associated with new opportunities (growing GM crops, impact on staff, what happens if you have a drought for the next 3 years after implementing this expensive new technology?). Farmers need to use outside consultants to help them assess (without emotion) both the positive and negative aspects of their farm business before investing in any new technology.
Publications	WANTFA conference February 2009 – 20 min presentation, and paper in proceedings SEPWA field day Oct 08 Condingup field day.