

Agman brings demand agriculture and foreign investors together

By Helen Murray

Food security risks do appear to be elevating in some countries. This is so because of the sheer volume of population growth, the potential risk of climate change impacting negatively upon crop yields, the loss of arable land as a result of urban encroachment and in some countries the impact of unsustainable farming practices, such as China, whereby large tracts of land have been rendered unproductive. Developing country populations are also undergoing changes in diet towards more protein and meat as incomes gradually rise.

Amid these dynamics, interests from other parts of the world are attracted to securing an Australian farming foothold. Graham Barron saw this coming. With a small group of partners, bringing together well rounded skills, he founded the Agman Services business with Jack (Anthony) Gordon to provide a new whole-supply chain production and management service for corporate landholders like Wyalong Rural Investments, which crops about 20,000 hectares near West Wyalong, NSW.

“Partnering with Jack brought agronomic, banking and merchandising capacity and also a shared vision of what a new integrated grains supply chain can look like. It’s a production system that starts with variety selection and ends on the supermarket shelf, capturing margin all the way.”

Barron points out that like other sectors of the Australian economy, “agriculture has always used substantial levels of foreign capital.”

Agman is heavily involved in the marketplace for off-shore investors into Australia as well as local corporate scale investors. A fifth generation farmer in southern NSW, Barron is an active and well-known participant in the grains industry. His achievements include current chair of Kondinin Group and a past director of GrainCorp.

Mutual benefits of foreign investment

Today’s level of foreign interest in the Australian market is just the tip of the iceberg, according to Barron. “Australia has an abundance of comparative advantages. A secure democratic political system and robust legal system, world class farmers, a legal water trading framework and a history of substantial exportable production volumes.”

He believes that substantial mutual benefits exist between Australia’s rural communities and foreign land owners. Agriculture is an industry where innovation is an absolute must. Barron says that the missing ingredient to drive productivity improvements on many Australian holdings is access to capital ... and rain.

Large amounts of capital are a prerequisite to employing the level of technical sophistication needed in large scale farming operations. “Capital inflow is great for agriculture and the regions”.

He illustrates that the mixture of on-shore and off-shore invest-



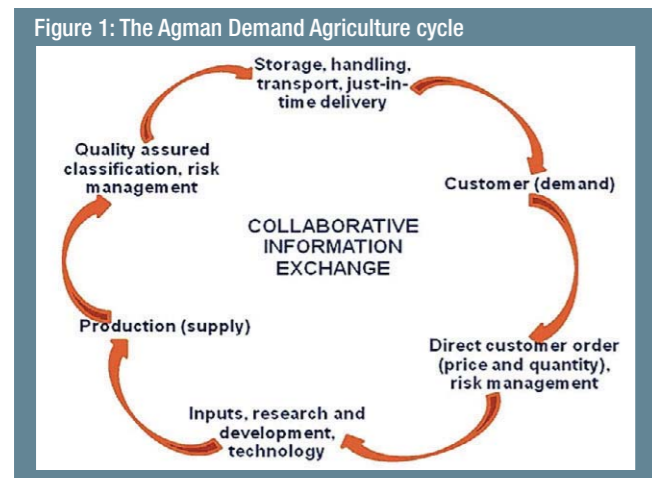
Agman chairman Graham Barron contends producers must get close to the end user to “build margin”. This is not a simple process as added services involve extra costs and other off-farm business risks that have to be managed.

ment sits in an economy-wide context. Australia’s industries have always developed with support from capital coming in from overseas. “The undeniable truth about the Australian economy is that foreign investment is needed, in conjunction with domestic investment, to build industries and create wealth and employment. This is not a new thing. Without it our minerals would still be sitting in the ground,” he says.

“We don’t have access to all the capital needed domestically. Like other parts of the economy, agriculture requires that marriage of domestic and international investment.

“We must be very mindful not to resort to a knee-jerk reaction toward continued foreign investment,” Barron says. “Rural communities and farm land desperately need capital. Only with that can we build a more viable and more sustainable production base and communities. Capital injections will underpin this.”

Agman managing director Anthony Gordon oversees Wyalong Rural Investments which owns 20,000ha at West Wyalong, central west NSW. It grows cereals and oilseeds using no-till, controlled traffic farming and has its own QA system. It has storage on farm and contracts other storage. Grain sales are made direct to end-users with just-in-time delivery over the marketing year. Agman Services key performance indicator for clients' invested capital is 15% IRR.



Australia's ag advantage

According to Barron, "A lot of countries where agriculture can flourish like Eastern Europe, the African continent or Argentina are impeded by the risk that exports could be subject to government restrictions to protect domestic food security."

A 2009 report by the International Food and Agricultural Trade Policy Council noted a record number of export restrictions had been triggered in 2007 and 2008 by the dramatic commodity price increases. Witness the 2010 Russian drought-induced wheat export ban. This impacted instantly on international grain prices. Those with contracts in place to ship export grain, usually with little advance warning, other than market rumours, faced serious international business interruption and financial loss.

Agman nominates growing interest from Middle Eastern parties; where climate, low rainfall and depleted irrigation water supplies are a serious impediment to food production. Asian investors are also active. Interest is both private/public companies and sovereign funds. The latter motivated through the goal of better food security for their people. In those cases, the risks of owning land in a country that may be judged to have its own food security risks is anything but attractive.

"We've always got enough food to go around with plenty left for exports, this makes Australia attractive. It's really that simple," says Barron. "Australia roughly feeds 60 million mouths and plays an important export role in global commodities like grain and beef".

Barron says overseas businesses usually view investment in Australian agriculture as part of a wider geographical spread in their total portfolio. The Agman experience is that Australia is viewed as a stable democracy, with a robust land tenure system and low sovereign risk.

Mechanised production systems, a sound export track record, well regulated financial and banking sector and educated workforce are further benefits.

There's the advantage of legal title and a water entitlement trad-

ing framework in place, but Barron points out that the ongoing uncertainty over water access policies in the Murray Darling Basin is an impediment to investors.

Demand Agriculture approach

Demand Agriculture is a phrase used a lot by the Agman team. Coupled with conservation farming, this underpins Agman's method of managing the primary production interests owned by its clients. In a nutshell it's about being demand driven or producing what is needed, not just what is convenient.

Importantly, it involves some finessing at the supply end of the chain – for example having off-farm delivery systems and timing to suit the demand of the end-user/buyer rather than delivering straight into a bulk storage at harvest time, which might be the simplest and most convenient path for the producer.

The philosophy is to value add to supply of the raw commodity in a way that is tailored to suit clients with whom there are long term supply relationships. "Demand agriculture is delivering exactly what the customer wants, in a quality assured way, at the time and in the exact quantities they want," says Barron. "By finessing the grain offering that can be made to our customers we are able to secure a premium."

Marketing of Quality Assured (QA) grain is integral to the Demand Agriculture model. Barron took this path some years ago with his own barley to suit Japanese market requirements. He's confident that producer QA is here to stay for those with the right systems and dedication to make it work on farm.

Agman's service to its producer clientele is all about getting close to the end user, being a preferred supplier and through going the extra mile as a supplier, attracting long term repeat business and premiums.

"Ultimately as the industry matures we like to think that users will make trade orders direct with producers and engage with producers in a supply chain which is truly customised for those end

users," says Barron. This is best done when the production side has enough scale and access to capital to secure stand alone storage facilities with farm-to-customer QA systems which dovetail with the end user's own food quality and safety parameters.

Barron's view is that producers must get closer to the end user to "build margin". This is not a simple process. With added services come extra cost and thus other off-farm business risks that have to be managed. These require specialised management skills. Agman's goal is to have the capacity to successfully marry professional grain producers with a stable of end users in a new style of demand agriculture business agreements.

Long-term supply agreements

He contends long-term supply agreements with a mutually suitable pricing mechanism that shares risk is a workable model. "The future of the grains industry will be new parallel supply chains operating alongside the bulk handling system."

Certain end users and certain grain suppliers, like Agman, can develop direct supply chain capacity so that specific customer requirements are met. Opportunity exists partly because of customers' need for confidence in their suppliers from the food safety and quality angle.

But that isn't new. The new element into the equation is a drive by end users to secure direct supply sources into the longer term – underpinned by the knowledge that global food demand is strongly predicted to escalate and the knowledge that variability in supply is a given in this dry continent, even if this usually balances out globally.

Can Demand Agriculture offer opportunity for individual farmers? Barron contends access to this style of supply chain need not

be restricted to just the large-scale corporate family operator or the Australian or foreign corporate producers, all with scale and access to capital. It's early days but Agman intends to be a facilitator to bring in individual farmers as well.

"A community efficient farmers that are employing good science to grow their crops and that can comply with traceable, quality assured on-farm production really has a lot going for it," he says.

Barron points out that regardless of whether you are corporate scale or not, "the future of productive and viable farming is using the best science with your input mix to maximise productivity; plus tapping into the right expertise for the sales and risk management program." It's all about the rising professionalism of farming tied with access to capital. "If we don't have foreign investment Australian agriculture will be in a parlous state."

Stepping up to the plate

And after that, where to next? Barron says the stark reality is that GM food crops are the only way the planet can realistically meet the challenge of food production needed in the decades ahead. Drought tolerance and better water efficiency of plants will be the next revolution in agricultural efficiency. "By 2050 not only do we need to double world food production, we have to do it with half the arable land per capita.

"The next phase will be growing crops by stacking specific genetic product and production traits, that will not only assist farmers but will provide advantage to the consumer whether it be driven by health, energy or environmental demands."

* Helen Murray is principal of Kurrumbene Agribusiness, Projects and Consultancy, 0419 991 424



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