
Market Profile for Agritech in Australia

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1.0 MARKET STRUCTURE

1.1 Size

The gross value of Australia's farm production in 2007-2008 was AU\$41,206 million, up from AU\$35,918 in 2006-2007.¹ While the contribution of agriculture, forestry and fishing to Australian GDP is relatively small, at around two percent, it is still an important contributor to the country's overall economic performance.²

The main sectors of Australian agriculture are beef, wheat, dairying, wool and broadacre crops. The major industries according to their contribution to total agricultural production over recent years are beef (19.4 percent), wheat (12.5 percent), dairy (8.7 percent), wool (8.1 percent), broadacre crops (8.1 percent), pig meat and poultry (7.8 percent), and sheep meat (5.1 percent). Other significant activities include grape, fruit, vegetable and sugar cane growing.³

There are very few naturally good soils for agriculture in Australia. Most are infertile and shallow, with deficiencies in phosphorous or nitrogen. Fragile soil structure and a susceptibility to waterlogging are other common features of Australian soils, while large areas are naturally affected by salt or acidity.⁴ These soil characteristics restrict particular agricultural activities or rule out agricultural activity altogether.

Rainfall is variable from year to year and can result in lengthy periods without rain. The seasonality and variability of rainfall require that water is stored and 70 percent of stored water use (including groundwater) is accounted for by the agricultural sector. Government regulations require full recovery of water including water used in irrigation, this has an ongoing affect on farms. Irrigation has become an important part of agricultural activity, opening up parts of Australia that otherwise would not be suitable. Evaporation is another important aspect of Australia's environment affecting agricultural activity.⁵

Broken down on a state by state level, New South Wales is the largest producer of cotton, oilseed, pig, poultry and wool (followed by Victoria). Queensland has the largest fruit, vegetable, sugar cane and cattle. Victoria is the largest producer of diary, sheep and lambs. Western Australia dominates the grain sector and South Australia is the largest producer of grapes.⁶ Beef cattle are most significant in Queensland, followed by New South Wales and Victoria. Dairy farming is dominated by Victoria.

Crop farming is undertaken by farmers in Queensland, South Australia, Victoria and New South Wales (respectively). Grain is grown mainly in New South Wales, South Australia, Western Australia, Victoria and Queensland. Wheat and barley are the dominant grain crops in terms of both value and volume. Sugar cane is dominant in Queensland.

About 60 percent of Australia's land is used for some form of agricultural activity.⁴ The area of land cropped or sown to pastures and grasses has been expanding rapidly, facilitated by

factors including the increased use of fertilisers, improved water supply and reduction in the rabbit population due to myxomatosis.

1.2 Growth rate

Overall economic growth in Australia is estimated to be around 1 percent 2008-2009, with a drop to 0.75 percent in 2009-2010. The economy is expected to resume and average growth in 2013-2014 of 3 percent.⁷

The estimated gross value of farm production for 2008-2009 is forecast to increase to AU\$42,646 million from 2007-2008 AU\$41,486 million.⁷ The dairy industry has registered the strongest growth per annum at 7.9 percent, beef, sheep, grain and cattle farming have had the most volatility; however it has balanced out with the 2008-2009 revenue reflecting that of 2005-2006.⁶

Wheat and other crops had record prices and production during 2007-2008 resulting in an increase from the 2006-2007 drought. Production and prices for 2008-2009 are expected to average the previous year.⁷ The small decline in livestock production mainly reflects herd rebuilding after drought and a forecast decline in milk production based on an expected lower availability of water for irrigated pasture.

1.3 Known factors influencing growth rate

In September 2008 Australia leading economic index fell for the first time in 17 years.⁸ With economic growth largely affecting its major trading partners, Japan, USA, China and UK, Australia has experienced the flow on effects in its exports with agriculture making up to 60 percent of exports.⁹

Factors such as increase in disposable income have increased demand for more organic fruits and vegetables. Public perception has also changed to view poultry as healthier option lowering demand for red meat. Stock in Australia is predominantly fed on grain crops resulting in increasing demand, as well as global demand for oilseeds and crops for bio fuel usage.⁶

The level of world demand for agricultural products is a key influencer. The domestic market for agricultural products is saturated, therefore further growth opportunities for the industry will come through world demand and export growth, particularly in Asian markets.

Changes in seasonal conditions, including the occurrence of drought, can have a major adverse impact on the performance of the industry. Many farms continue to be financially strained due to water shortages.

2.0 COMPETITIVE ENVIRONMENT

2.1 Major players in the market

There are 3 main players in the rural supply market who have a nationwide presence and share around 80% of the market. Other business is through independent stores and regional co-operatives.

2.1.1 Rural Stores – Major Suppliers

There are three main organisations that have rural store operations nationwide in Australia, which together account for an estimated 80 percent of the total rural merchandise retail business market.

Their stores handle a wide range of merchandise and are very competitive. They generally prefer to purchase product direct from suppliers (whether it is a manufacturer or a distributor/agent) who are generally required to deliver direct to branches. Recently buyers from these chains have sought to rationalise the number of suppliers to reduce costs and administration time involved.

Landmark

www.landmark.com.au

Landmark is part owned by AWB and Fonterra and has over 400 stores nationwide. In 2003, AWB Ltd acquired Landmark from Wesfarmers Ltd. The organisation now has a distribution network of more than 430 rural outlets and access to a customer base of over 100,000 farmers. Landmark is regarded as the largest supplier of farm inputs including fertiliser and chemicals and has significant interests in wool and livestock marketing, rural property, real estate, finance and insurance. Eighty percent of Landmark stores are owned by Landmark, the remainder are franchises, or member/partnership agreements. Major products lines are chemicals, animal health, fencing, water equipment and fertiliser. Key growth areas are farm inputs such as chemicals, fertiliser, technology and genomics.

Elders Limited

www.elders.com.au

Elders have 440 stores nationwide, of which 95 percent are owned by the company. Elders have 3,400 suppliers to their rural stores with the top 20 supplying 70% of total merchandise. Each store on average has 800-900 product lines. Elders largest suppliers are mainly multi-national chemical/fertiliser companies such as Bayer Crop, Nufarm, Pfizer and One Steel BP. The group also has a JV bank and offers such things as real estate and insurance in order to maintain customer loyalty. Products sold in Elders stores include fencing, pasture seeds, animal genetics, calf feeding equipment, animal remedy products, tractor equipment, general purpose agricultural equipment and rural clothing. Elders constantly reviews their suppliers, products and core range.

Ruralco Holdings Pty Ltd

www.ruralco.com.au

Ruralco trades under the main banner of CRT (Combined Rural Traders). They also have Town & Country and Grow Force stores, which makes Ruralco one of the largest rural merchandise operations with 400 stores across Australia. Ruralco has around 1000 suppliers. They offer a four percent rebate to members buying through a group arrangement and it is estimated that 50-60 percent of purchasing is done through the buying group. Key products in Ruralco stores include fencing products, pasture seeds, animal remedy products, general purpose agricultural products, rural clothing and dairy equipment. Ruralco doesn't have set criteria for suppliers to present new products, however, a product needs to have significant dollar/volume turnover due to the four percent rebate factor. Ruralco is interested in more clothing stock, animal genetic products (especially in the dairy sector) and possibly technical farm tour products and services.

2.1.2 Rural Stores – Minor Suppliers

The other 20 percent of this market is made up of a number of smaller suppliers. Some of the smaller national suppliers also act as wholesalers, so companies such as Elders and Landmark buy from them as well. These smaller suppliers are more likely to order direct from the New Zealand companies who are then faced with the challenge of delivering to smaller centres.

NRI (National Rural Independents)

www.nri.com.au/

NRI was formed in 2001 and is based on a shareholding arrangement. It has 45 stores nationwide dealing in chemicals, fertilisers, animal health, fencing, machinery, farm equipment, irrigation and smaller dairy componentry. NRI's main strength is as a supplier to broadacre farming.

Murray-Goulburn Co-op Pty Ltd

www.mgc.com.au

Murray-Goulburn is a dairy co-operative based in Victoria. They have 26 rural merchandise stores and 500 suppliers, with 150 rated as preferred suppliers. Products supplied are dairy-based and some hardware products, including fencing, pasture seeds, animal remedy products and rural clothing.

Norco (Rural Stores Group)

www.norco.com.au

Norco began operations in New South Wales in 1895 and now has 20 stores in NSW and Queensland. There are now 671 dairy farmer members of the co-op supplying from 232 farms in New South Wales and Queensland. Norco provides farm services as well as products, such as farm development facilitators and advisory services. They also have a stockfeed mill and a wholesale operation, which supply small and remote independent areas. They have over 2,000 suppliers and service a vast array of agricultural farming including dairy, beef, sheep, cropping and horticulture.

IHD Pty Ltd

www.ihd.com.au

IHD is run by 25 rural store independents who have formed a buying group. It services its members and also acts as a wholesaler to other rural outlets. One of their largest members is the Muir group, which has 12 stores across Australia. IHD mainly specialises in agricultural chemicals, as well as fertiliser, animal health and remedy products and seeds. IHD prefers to deal with smaller suppliers, as they consider they fit with their smaller membership base.

Milka-Ware Australia Pty Ltd

www.milka-ware.com.au

Milka-Ware is known as a supplier of “Total Dairy Systems” and is located in key dairy town locations. They have eight stores located mainly in Victoria. Milka-Ware has a range of their own product lines, as well as purchasing products from other suppliers. Therefore it can act as a distributor for some products.

Additional Supplier Contacts

The following suppliers are all members of the main rural operations, but are key re-sellers in their regions. In the majority of cases, they also buy separately from their member buying groups.

Growmart

www.growmart.com.au

Growmart is a division of the Mildura Co-operative Fruit Co Ltd and a member of Landmark (although they do have direct accounts with suppliers). They have six rural stores in Victoria and one in New South Wales. They target fruit growers but also supply broadacre farm and animal health products. Their main products are fertiliser and chemicals.

Roberts Limited

www.robertsltd.com.au

Roberts is the largest group of rural merchandise stores in Tasmania with 17 stores. They are part of the CRT buying group, representing 10 percent of CRT’s buying for the group. They have over 1000 suppliers. They are looking for products and services that help in more efficient farm management.

Websters Ltd

www.websterltd.com.au

Webster Group has interests in horticulture, walnuts, aquaculture, industrial supplies, truck sales and parts and servicing. Webster is Tasmania’s largest horticultural exporter with customers throughout Australia, Europe and Asia. Webster has entered into a JV with Elders and all rural stores will be branded Elder’s Webster.

2.1.3 Major farm machinery/equipment dealers

- **Emmetts** – A group of five stores based in Western Victoria.
- **O’Connors** – Four dealerships in regional Victoria.

- **Vin Rowe Pty Ltd** – Importer/exporter of a range of machinery and equipment.
- **Goodwin Kenny Pty Ltd** – A dealership with three outlets in New South Wales.

2.2 Imports

The total value of agritech exports to Australia from New Zealand was NZ\$123 million for 2008¹⁰, up from NZ\$106 million in 2007. The top five products were: machinery (\$60 million), medical and veterinary supplies (\$19.8 million), seeds (\$18.4 million) and electric fences and parts (\$5.4 million).

2.3 Marketing strategies

The pastoral-based farming systems of New Zealand are similar to pastoral systems in Australia – mainly in the southern parts of Australia (Victoria, Tasmania, parts of South Australia and parts of New South Wales).

With this in mind, dairying is a key sector for New Zealand agribusiness companies to focus on. The supply of New Zealand dairy technology is not new to Australia and there are a number of New Zealand products already well established in the marketplace.

Pastoral farming of sheep and beef is also an opportunity, mainly for more general farm products (eg handling equipment). Deer farming is a niche market in Australia but is anticipated to grow. As New Zealand is seen as an 'expert' in this area, there are opportunities for New Zealand products aimed at the sector. Other areas identified as growth areas are horticulture and cropping.

The following are some key sectors of opportunity in agriculture in Australia:

- animal health
- farm equipment/machinery
- seeds
- chemicals/fertiliser
- technology
- genetics
- managing environmental problems
- training/consultancy
- occupational health and safety.

The key to good market presence is finding the right distributor who can sell and distribute your product into the relevant rural supply chains. You will need to assess their ability to reach the areas which are most relevant to you and to be able to organise delivery of your product out into rural areas.

It is important to be aware that the rural supply chains do not promote your product and they will rely on you and/or your distributor to do this for them. Options for promoting your product include advertising and PR in rural media and retail chain magazines, promotion at relevant field days, personal sales calls and direct marketing.

The stores will most often stock competing products and you will need to have resources to support a marketing strategy to raise awareness of your product to your audience. If your product is not selling it will not remain in the stores.

2.4 Distribution channels

In general, smaller, less technical products are stocked in rural stores. This includes seed, chemicals, fertilisers, animal remedy products, general purpose agricultural products and rural clothing. These are generally supplied to the rural store operation through an appointed distributor or agent.

Larger, one-off technical products (mainly farming equipment) are not always stocked in rural stores. However, some stores have a range of catalogues of larger equipment items, which they will order in for customers. Larger farm equipment tends to be sold at farm machinery stores, which are very disperse and not as efficient as the major rural store suppliers. Therefore, stores tend also to be the distributor/dealer for the region/state. For innovative farm equipment such as handling products and stockyards, field days are a good marketing tool to promote products directly to farmers.

Farming services such as research, consultancy and in-bound agricultural tours could be promoted through the rural stores and some organisations are interested in this concept. Appropriate industry associations, representative groups and government agencies could also be an outlet for these services.

3.0 REGULATORY OVERVIEW

3.1 Duties/Taxes

New Zealand goods are given preferential treatment and can enter Australia duty free under the Australia New Zealand Closer Economic Relations Trade Agreement (ANZCERTA), provided they meet criteria under the Rules of Origin (ROO) test. This determines that goods have been made in either Australia or New Zealand.

Prior to 1 January 2007, to enter duty free goods had to qualify under the 50 percent rule, calculated at the last process in the manufacture i.e. at least 50 percent of the product's content is manufactured in New Zealand and/or Australia; or at least 50 percent of the total value of the product has been added through production in New Zealand.

Now, new Rules of Origin based on a Change of Tariff Classification (CTC) approach have been agreed. Under the CTC approach, a product will generally gain duty free entry as long as the manufacturing process in Australia or New Zealand involves a specified change in its classification under the global Harmonized Commodity Description and Coding System.

Exporters can enter under either of these rules of origin until 2012 but after then, only the new CTC approach will apply.

All goods imported into Australia must be cleared through Australian Customs. A customs import entry must be lodged for goods above \$1,000 per consignment. See the Australian Customs web site for more information - www.customs.gov.au.

Customs entry processing is subject to cost-recovery charges. Customs duty rates and GST (Goods and Service Tax) also apply at customs. Your customs broker or freight forwarder can advise you on customs duty rates.

GST is a 10 percent tax that applies to nearly all goods and services consumed in Australia. Customs charge GST to the importer of the goods, regardless of whether or not the importer is registered for GST. See the Guide to Doing Business in Australia for more information: www.nzta.govt.nz

3.2 Regulatory requirements

Where goods are subject to import controls under the Customs (Prohibited Imports) Regulations, the importers must apply to the appropriate department or agency for a permission to import. This must be obtained prior to the goods arriving in Australia and failure to do so may result in the forfeiture of the goods.

Products requiring an import permit as stipulated by AQIS are products derived from animals, plants and micro-organisms (including the micro-organisms themselves):

- human, animal or fish foods (including dairy products as well as plant products for livestock feeds but not processed plant products for human food)
- human or veterinary therapeutics, medicines or vaccines including unprocessed dried herbal medicines, which are likely to harbour micro-organisms
- agricultural materials
- food manufacturing materials
- environmental clean-up or bioremediation material (including plant based carriers)
- ingredients for cosmetics manufacture (but not commercially manufactured cosmetics or processed plant materials).

It is the importers' responsibility to identify and ensure they have complied with all requirements of any other regulatory and advisory bodies prior to and after importation including the Australian Customs Service, Department of the Environment and Heritage, Australian Pesticides & Veterinary Medicines Authority (APVMA) and any state agencies such as Departments of Agriculture and Health & Environmental Protection authorities.

4.0 RECOMMENDED STRATEGIES

4.1 Possible points of differentiation for NZ companies

New Zealand's agricultural excellence is based on its pastoral technologies, as the country has been built on pastoral farming. Therefore, the temperate zones where grass is grown and used for farming activities, is where New Zealand's ability lies.

The key areas for New Zealand's focus in agriculture are dairy, sheep, beef and deer. New Zealand is the largest exporter of internationally traded dairy products, the world's biggest producer of lamb meat and has the biggest farmed deer industry. It also exports large volumes of beef and wool.

The main areas of current strength and future potential for New Zealand agritech companies are:

- animal health
- fencing equipment
- genetics (both semen from proven high fertility bulls and/or live animals)
- dairy equipment (including milk and milk processing equipment)
- machinery and equipment (anything connected with replacing pasture and cutting grass)
- seed supplies (grass and specialty varieties)
- specialty agritech products and services (including farm computer software, backing gate systems, animal resuscitators, animal equipment, calf feeding equipment, animal identification and portable sheep yards)
- research and consultancy
- inbound tours – agricultural and technical.

The agritech and life sciences sectors are adding significant value and high tech innovation to New Zealand's oldest foundation industries.

4.2 Tactical recommendations on market entry

New Zealand agricultural products are generally well regarded in Australia and many NZ companies are established already in Australia. The main issue would be to adapt the product to Australian agriculture (if it does not already fit into the marketplace).

The key for New Zealand agribusinesses is to make sure there is demand for their product or service, that they are suited to the Australian agricultural environment and to identify the best distribution channel and the best representation for their products in Australia.

Essentially any product or service that makes life for the farmer more efficient is the key. Increasing the longevity of a product, doing the same tasks less often, or automating repetitive tasks are all attractive to farmers.

4.3 Sustainability issues ¹¹

Sustainability is a significant issue for the Australian agricultural sector. The sector is a major emitter of greenhouse gases and accounts for over one third of Australia's national emissions. The agricultural sector is also vulnerable to the impacts of climate change.

Climate change scenarios include reduced availability of water in key inland regions, increased risk of drought, increased soil erosion, dry land salinity and more hot days.

The rise in temperature is predicted to affect all types of farming, bringing new pests and diseases to animals and crops. Current livestock breeds may need to be improved to increase tolerance to higher temperatures. The quality and availability of current crops, pasture and feedstock will also need to be improved.

Technology use in the agricultural sector has the potential to achieve significant emissions reductions along with improvements in productivity and an increase in environmental sustainability. Increased use of smart technology for on farm monitoring of stock, pasture, soil moisture and irrigation systems will enable farmers to make the best use of farm resources.

5.0 MARKET RESOURCES AND CONTACTS

5.1 Government

Department of Agriculture, Fisheries and Forestry - www.affa.gov.au

Rural Industries Research and Development Corporation - www.rirdc.gov.au

Australian Pesticides & Veterinary Medicines Authority - www.apvma.gov.au

Department of Primary Industries- Victoria - www.dpi.vic.gov.au

Australian Bureau of Agricultural and Resource Economics (ABARE) - www.abareconomics.com

Bureau of Rural Sciences - www.daff.gov.au/brs

Australian Quarantine and Inspection Service (AQIS) - www.daff.gov.au/aqis/about

Biosecurity Australia - www.daff.gov.au/ba/about

5.2 Industry

Agribusiness Association of Australia - www.agribusiness.asn.au

Agricultural Research Institute - www.abri.une.edu.au

Animal Health Alliance - www.animalhealthalliance.org.au/

Australasian Farmers & Dealers - www.afdj.com.au

Australian Association of Cattle Veterinarians - www.ava.com.au

Australian Association of Stud Merino Breeders - www.merinos.com.au

Australian Beef Association - www.austbeef.com.au/

Australian Institute of Agriculture Science & Technology - www.aiast.com.au

Australian Lot Feeders Association - www.lotfeeders.com

Australian Seed Federation - www.asf.asn.au/

Australian Wool Industries Secretariat - www.woolindustries.org

Dairy Australia - www.dairyaustralia.com.au

Deer Industry Association of Australia - www.diaa.org

Irrigation Association of Australia - www.irrigation.org.au

Meat & Livestock Australia (MLA) - www.mla.com.au

National Herd Improvement Association of Australia - www.nhia.org.au

Standards Australia - www.standards.com.au

5.3 Trade Events

Ag Show

Held every year in September in Queensland

www.agshow.com.au

Henty Machinery Field Days

Held every year in September in Henty, ACT

www.hmfd.com

Elmore & Districts Machinery Field Days

Held every year in October in Victoria

www.elmorefielddays.com.au

Australian Dairy Conference (National & State Events)

www.dairyinfo.biz

Outlook Conference regional conferences
www.abare.gov.au/regional/index.html

Tocal Field Days
Held every year in May in Patterson, NSW
www.tocal.com

Ag-Fest Field Days
Held every year in May in Tasmania
www.agfest.com.au

Farmfest
Held every year in June in Queensland
<http://farmfest.farmonline.com.au>

Yorke Peninsula Field Days
Held every year in September/October in South Australia.
www.ypfielddays.com.au

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¹ Australian Bureau of Agricultural and Resource Economics (ABARE). *Australian commodities, 2008*.

² ABARE. Contribution to GDP of Australia : Graph 2007-2008, reference from:
www.abareconomics.com/interactive/08ac_Dec/htm/tbl_1.html (12 June 2009)

³ ABARE, Average gross value of production 2002-03 to 2004-05., *Agricultural economy of Australia, 2006*.

⁴ US. Commercial Service. *Australia: Agriculture Equipment*, February 2008.

⁵ Economist Intelligence Unit. *Australia agriculture: production and demand, February 2008*.

⁶ IBIS World. Industry Report, *Agriculture, Forestry and Fishing in Australia*, December 2008.

⁷ ABARE. *Australia Commodities, March Quarter Report, 2009*.

⁸ Datamonitor. *Recessionary Consumer and Product Choice: Implications, January 2009*.

⁹ ABARE. Insight, *Factors Affecting Australia Agriculture Exports*, Issue 09.5, March 2009.

¹⁰ Statistics New Zealand, via the World Trade Atlas. Product Group Agritech NZ

¹¹ Australian Government. Department of Climate Change website
www.climatechange.gov.au/impacts/agriculture.html