

HD **China** FTA not a game-changer: Rabobank

BY Mark Beyer

WC 679 words

PD 10 December 2014

SN Business News

SC WABN

LA English

CY © Copyright 2014 Business News Pty Ltd.

LP

Australia's free trade agreement with **China** is likely to deliver significant benefits to agricultural exporters but the gains will be mainly indirect and apparent over the longer term, a report by Rabobank has concluded.

The specialist agribusiness bank has downplayed some of the optimism flowing from last month's signing of the FTA, saying it would not be a game-changer.

TD

It noted that **Chinese** demand for agricultural products has grown significantly in recent years in the absence of an FTA.

China is Australia's largest export market for wool, cotton, mutton and **dairy**, the 2nd largest for lamb, the 3rd largest for beef and 4th largest for **wine** (on a volume basis).

Rabobank said the initial winners from the FTA would be **Chinese** consumers, who would gain from lower prices as import tariffs were removed.

"Benefits are also likely to be captured at the strongest points along the supply chain, where concentration and market power allow price maker advantage," its report said.

Rabobank said producers would still benefit in the form of higher market share, as Australian products become more price competitive relative to other exporters.

"This will become increasingly important in stimulating demand in this nascent market, which then has the potential to feed into higher global prices," it said.

"The question then becomes one of the propensity of **Chinese** consumers to keep purchasing more, and the capacity of Australian producers to produce more to meet this demand."

Rabobank said supply constraints would be a particular challenge in the **dairy** sector.

Chinese demand for **dairy** produce is tipped to grow by 3.5 per cent per year, presenting a big opportunity, whereas Australian liquid **milk** production has been decreasing for the last 12 years and flat for the past five years.

Milne AgriGroup owner Graham Laitt, who established a joint venture with Gina Rinehart's Hancock Prospecting this year targeting beef exports to Asia, said the industry had seen opportunities in **China** well before the FTA.

"The reality is that the **Chinese** herd is declining," he said.

"There are other suppliers, but there are also lots of other markets."

Mr Laitt said the FTA would improve trade sentiment with **China**.

"It says they are open to trade, and that encourages relationships to develop; we shouldn't underestimate how important that is."

Mr Laitt said the biggest barriers to trade were often institutional, around issues like quarantine clearances and government approvals.

He noted, for instance, that Harvey Beef is the only abattoir in WA that is licenced to export to **China**.

Mr Laitt's joint venture involved the **sale** of a 50 per cent interest in the Liveringa and Nerrima cattle stations in the Kimberley, for \$40 **million**.

The Liveringa Station Beef joint venture has also acquired a mothballed abattoir at Waroona south of Perth, which will re-open after its beef herd has increased in size.

Like Mrs Rinehart, Fortescue Metals **Group** chairman Andrew Forrest is another **iron ore** miner investing in the cattle industry.

Mr Forrest's private **company** Minderoo paid \$30 **million** for Harvey Beef this year, adding to his extensive Pilbara pastoral interests.

Another significant development this year was the signing of a joint venture between Bunbury meat processor V&V Walsh and **Chinese** importer Grand Farm.

Their agreement, valued at \$1 **billion**, could see the Walsh **business**, owned by brothers Greg and Peter Walsh, process an extra 500,000 lambs and 30,000 cattle a year.

In the **dairy** sector, Hancock Prospecting announced plans last month to invest \$500 **million** buying 5,000 hectares of farm land in Queensland and building an export-focused processing plant.

Hope Dairies, majority owned by Hancock Prospecting, plans to process 30,000 metric tonnes, equivalent to 35 **million** tins, of infant formula per year, and begin exporting in late 2016.

"Australia has some of the finest agricultural products in the world and we need to position ourselves to meet the demands of our region," Mrs Rinehart said in a statement after signing the Hope Dairies agreement.

IN i412 : Animal Slaughtering/Processing | i41 : Food/Beverages/Tobacco | icnp : Consumer Goods | ifood : Food Products

NS c184 : Joint Ventures | c312 : External Markets | gtrade : Tariffs/Trade Barriers | mlvstk : Livestock/Meat Markets | e512 : Physical Trade | c18 : Ownership Changes | c31 : Marketing/Markets | cactio : Corporate Actions | ccat : Corporate/Industrial News | e51 : Trade/External Payments | ecat : Economic News | gcat : Political/General News | gdip : International Relations | gpip : Politics/International Relations | m14 : Commodity Markets | m141 : Agricultural Commodity Markets | mcat : Commodity/Financial Market News | ncat : Content Types | nfact : Factiva Filters | nfce : C&E Exclusion Filter | nfcipin : C&E Industry News Filter

RE china : China | austr : Australia | waustr : Western Australia | apacz : Asia Pacific | asiaz : Asia | ausnz : Australia/Oceania | bric : BRICS Countries | chinaz : Greater China | devgcoz : Emerging Market Countries | dvpcoz : Developing Economies | easiaz : Eastern Asia

PUB Business News Pty Ltd

AN Document WABN000020141210eaca000gp