



# Alpine Valleys

## agribusiness forum

*'Australian Alpine Valleys - Where the Best Grows to Perfection'*

### **North East Farmer July 2010 Valleys of Riches**

I spend a lot of time driving through the rich valleys of North East Victoria, intrigued and amazed at the number of underutilised high potential farms currently running cattle possibly delivering a negative return on investment or slightly positive at best.

A recent report by John Mulvany indicated that the top 25% of cattle farmers were posting an average return on equity of 1.2% over the last 5 years, not even returning the cost of capital. The basis of this article is the result of that disturbing figure and the constant media around global food shortages and escalating food prices. Clearly there is a real disconnect between what the World Bank and World Health Organisation and other well credentialed commentators are saying and what the market signals are delivering.

The World Bank has estimated the global population will increase from six billion 2010 to nine billion in 2050 with an increase of over 100 million people filling the middle class in Asia. Food production needs to increase by 70% by 2050 according to the UN Food and Agricultural organisation, 70% of the world's population will live in an urban environment up from 50% today.

Between 1990 and 2005 world demand for food grew 15 times faster than the area of land being farmed. Currently there is 1.63 ha of productive land per person and falling. So the indicators are that we have increased urbanisation, less arable land available, climate change reducing potential rain fall, a general decline in soil health and an absolute decline in investment in Research and Development for the agribusiness sector globally.

I have been part of a project that aims to identify new industry that might fill the land use gap that was formerly occupied by tobacco. To this point the project has identified and discussed a range of industries and investors who generally are unaware of the North East as a destination for investment and also its potential productive capacity. The offers that have been put on the table are certainly nothing to get excited about and would hardly compare to a five day a week off-farm job and a 1% return on equity from cattle.

Surely there is a real disconnection here and the market signals; price and EBIT (Earnings Before Interest and Tax) are sending the message that agriculture (cattle) is a below average investment.

The agribusiness sector will need some real incentives to retool and reinvest if it is going to take up the challenge of meeting the impending food shortage.