



Agriculture

How will covid-19 reshape key Australian industries?



Didier Van Not,
General Manager,
Corporate and
Institutional Banking,
Westpac Institutional
Bank

Covid-19: The prognosis for Australia's food and dairy industry

The economic fallout from the pandemic has raised countless big questions for Australian businesses across industry sectors. Agriculture is no exception.

Australia's historically heavy reliance on agricultural exports—with 70% of production going offshore—was instantly impacted as lockdowns and travel restrictions were introduced and businesses in export markets faltered or closed.

Despite Federal Government moves to ensure fresh food could reach key markets in Asia and the United Arab Emirates (UAE), severe slumps in demand in certain parts of the agriculture sector quickly became apparent. This left local producers and manufacturers facing uncertain prospects and a new round of challenges.

At Westpac we have been working closely with our customers to help tackle issues as they arise and, where possible, to provide

support. As part of this effort, Westpac IQ has teamed with The Economist Intelligence Unit to bring you a series of perspectives from major industry leaders on how the economic crisis precipitated by covid-19 has impacted each sector and, more specifically, how their businesses are managing through the downturn.

In the first of the series, we thank Paul van Heerwaarden, chief executive officer of Bega Cheese Limited, for his compelling insight into how the pandemic is changing the food and dairy sector, ranging from price drops to a renewed focus on traceability and biosecurity.

We look forward to bringing you the answers to more big questions from Australian leaders across a range of industry sectors in the weeks to come and, as always, we're keen for your feedback.

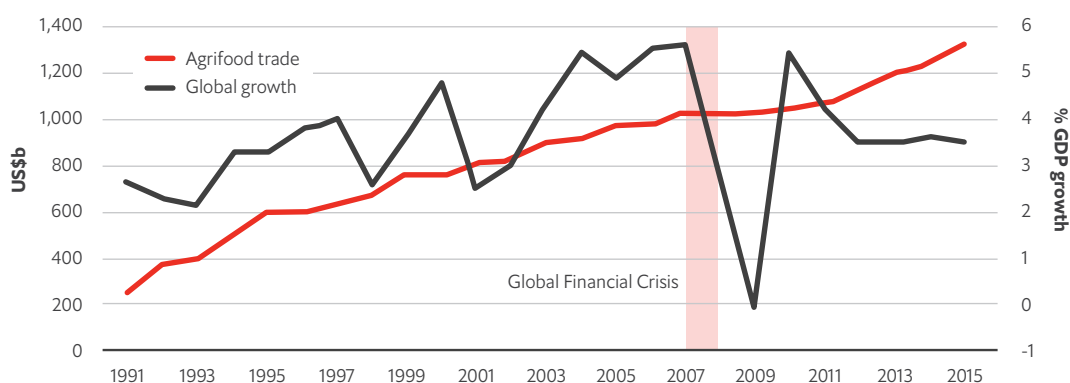


Australian agriculture's annus horribilis

None of Australia's key economic sectors have been immune to the devastating impact of covid-19. Yet while people stopped spending on retail and entertainment as lockdowns came into force, they still needed to eat, and

many families took the extra time in lockdown to improve their culinary skills. Indeed, history shows that the agricultural sector remains sturdy even during a crisis.

Figure 1: Global trade in agricultural products during the Global Financial Crisis



Notes: Trade data discounted by IMF food price index. Source: Greenville et al. (2019), IMF.

The federal government also moved swiftly to introduce measures to ensure that Australian products could continue reaching export markets. This included a support package, with A\$110m (US\$72m) spent on co-ordinating flights from major Australian cities to deliver fresh produce to the key markets of China, Japan, Hong Kong, Singapore and the UAE. As a result, Australia's agricultural industry is likely to fare better than many of the nation's other sectors.

However, with 70%¹ of the nation's agricultural production presently exported, the sector is heavily reliant on overseas demand. In developing markets and those hit hardest by falling oil prices and wage slumps, orders have already decreased for food products considered discretionary. For seafood alone, the outbreak in China is expected to result in export earnings falling by approximately A\$200m² (US\$131m) in 2019–20, according to the Australian Bureau of Agricultural and Resource Economics and Sciences (ABARES).

Soft commodity prices are also expected to take a downward turn globally³, and Australian products will prove no exception. Products such as wool and cotton are more vulnerable to economic shocks than food products as consumers are likely to buy fewer new clothes and other durable goods. Should overseas manufacturing business closures be prolonged, the downturn will be further exacerbated. Just how severe the impact on Australia's agricultural sector will be remains to be seen.

In this interview, Paul van Heerwaarden, the chief executive officer of Bega Cheese Limited, answers questions from The Economist Intelligence Unit on how covid-19 is changing Australia's food and dairy industries and its broader implications for the country's agriculture sector and export markets. Some quotes have been edited for clarity.

¹ Snapshot of Australian Agriculture 2020, ABARES, 2020.

² Impacts of COVID-19 on Australian agriculture, forestry and fisheries trade, by Jared Greenville, Heather McGilvray, LY Cao and James Fell, ABARES, April 2020.

³ Most Commodity Prices to Drop in 2020 As Coronavirus Depresses Demand and Disrupts Supply, World Bank press release, April 23, 2020.



Paul van Heerwaarden,
chief executive
officer of Bega
Cheese Limited

**The Economist Intelligence Unit:
The year started with unprecedented
bushfires and then saw the pandemic
reach Australia. How have these recent
events impacted the agriculture industry?**

Mr van Heerwaarden: “It certainly has been a difficult year. Our supply base around the Bega Valley and East Gippsland was heavily impacted by the recent bush fires and for many of our dairy suppliers in those regions it was devastating. And those fires came straight on top of a drought, followed by covid-19.

“However, with the virus, farmers are used to operating with little contact from others, so we’re not seeing major changes to operations at the farm-level. Farmers are getting on with what they do well, which is producing great food for the rest of us. In actual fact, I’d say that the heavy, widespread rains over the last two months have had more of an impact than covid-19. Those drought-breaking rains have had a very positive impact on many regions.”

**The Economist Intelligence Unit:
Looking at covid-19, how has Bega
Cheese Limited been affected?**

Mr van Heerwaarden: “Of our 2,000 employees nationwide, 1,500 are still attending our sites daily to ensure that we continue to supply food products to Australia and our export markets. In that respect, we are continuing to operate—I hesitate to say—as normal. We have a number of processes in place to ensure the ongoing safety of our onsite employees, such as daily temperature testing. We’re in the food industry, so we play an important role, and we feel fortunate to be able to continue to contribute.”

**The Economist Intelligence Unit:
What impact has covid-19 had so far on
agricultural supply chains within Australia?**

Mr van Heerwaarden: “Putting to one side for the moment the impact on some of our customers, the supply chain impact has been relatively minimal. We did see a slowing of container shipments in February, but broadly speaking it normalised into March. I think

our government has done a particularly good job of minimising disruptions. Our peak industry body, Dairy Australia, has done a tremendous job of providing guidelines and support for milk logistics alongside farm collections so that tanker drivers and our farmers and their families can operate in a safe environment.

“I’d also add that manufacturing practices in the food industry have a heightened focus on quality and hygiene because of the nature of the products that we deal with. This is particularly so for hygiene in the plants and our ingredients, as well as our people and the processes they adhere to before entering a manufacturing area. So for us it was a lot easier to intensify those processes in response to covid-19.”

**The Economist Intelligence Unit:
Which export markets have been
most impacted in terms of demand?**

Mr van Heerwaarden: “We’ve seen a large impact in China, Malaysia, Japan and Indonesia, and these are important markets for Australia’s dairy industry. Dairy is quite a big business in China. They’ve got a reasonably substantial domestic supply base but they also rely heavily on imported products. There was also a buildup of orders in Japan leading up to the Tokyo Olympic Games, and when the games were called off it resulted in a lot of excess inventory. With the slow down in demand it will take some time for that inventory to work its way through the market.

“It’s worth noting that dairy products in developed countries are widely consumed on a per capita basis. Consumption is much lower in developing countries—products that we consider staples are considered luxury or discretionary items. And when these markets are hit by an economic shock, it has a salient impact on demand. In regions such as the Middle East and North Africa, which are highly dependent on oil revenues, when oil prices drop off and even enter negative territory—which I didn’t know was possible—the impact that has on economies and wages is severe and felt very quickly.

“You can’t just turn off supply that comes through agricultural supply chains. If it’s a manufactured product like Vegemite, we can dial that production up and down pretty easily. But with dairy product you have to find other markets to place your excess. This puts further downward pressure on alternative markets and global prices. As markets soften, traders and the ultimate buyers will not be as active as they will wait to see how far prices fall. We saw this happen during the Global Financial Crisis. I expect this decline in prices to continue, at least for the remainder of the calendar year.”

**The Economist Intelligence Unit:
What role can technology play in maintaining high biosecurity standards and allaying public health concerns post-pandemic?**

Mr van Heerwaarden: “In the food sector, I expect there will be an increased focus on traceability. It allows the customer to know where a product has come from and what has happened to it through the supply chain. A consumer may want to know this for a number of reasons such as reducing food miles, choosing a product that has been produced in a certain region or by a certain community, or to know that it meets the requirements of regulations, including for example, Australia’s Modern Slavery Act.

“In the food industry, we’re very concerned with biosecurity, and Australia has a strong record in this regard. In our risk management programmes, we consider animal disease outbreaks. Should an outbreak occur somewhere, we consider what the impact would be and how we would respond. covid-19 provides an example of how quickly outbreaks can escalate and why you need to be well-prepared to act. The ability to maintain good records in your business through technology like traceability tracking will become even more important.”

**The Economist Intelligence Unit:
Do you think international agricultural trade will return to normal levels in 2021?**

Mr van Heerwaarden: “If you look at global growth forecasts for GDP in 2021, the expectation is that demand at the macro level will normalise somewhat. As I mentioned, we will see some slippage in demand for the higher priced, animal-based proteins and fats in favour of plant-based proteins and fats, such as grains and cheaper vegetable oils. So while the demand will still be there, I suspect that we will see less demand for those higher value soft commodities. And I think it will take a couple of years before we return to normal levels of demand.”

**The Economist Intelligence Unit:
Do you think we will see any fundamental or permanent changes to the way agricultural trade is carried out in the post-pandemic era?**

Mr van Heerwaarden: “We will continue to closely monitor protectionist policies and trade policies with and amongst the large trading blocs. Last year we saw the trade war between China and the US, which was more to do with intellectual property protection than trade. Nevertheless, it gives us an insight into what is to come.

“There is no doubt in my mind that geopolitical tensions will continue to intensify as we start to come out of the pandemic. We’re beginning to see some of the language being used by leaders around the world and the posturing and positioning that’s going on, particularly with regard to where the outbreak of covid-19 began. It’s a very tenuous situation and we need to be mindful of the impact this may have on our business and agricultural supply chains.”