Free Economic Zones for Rural Australia
March 2013
Lack of competitiveness costing growers

By JESSICA HAYES

AUSTRALIA has a long way to go to enhance its competitiveness as a source of grain exports according to Cargill Australia managing director Philippa Purser.

While Australia is a big player on the global export stage, comprising 17 per cent of world exports, it only produces 3pc of wheat globally.

Weather and soil conditions prevent competitive yields which put Australia well below the three-tonne per hectare average of the world.

Ms Purser said Australia continued to be a strong quality producer in colour, milling properties and cleanliness and this provided an advantage.

She cited a shift in the centres of economic growth as an important factor in the future of Australian competitiveness in grain exports and said population growth was increasingly urbanised and was predominantly in Asia.

“If you look at emerging cities, the top 440 emerging cities in the world in 2012 were only responsible for 18pc of growth in GDP and by 2025 they would be responsible for 47pc,” Ms Purser said.

“So there really is a massive shift in where the growth is coming from in the world.”

“When we talk about the ‘Asian Century’, the very next sentence is usually is ‘wow this is great for Australia and what an advantage it will be’, and there is good news here but it’s not as good as you might think.

“It’s about Asia living up to its growth and it very clearly is moving there, but the speed at which it happens is what we need to keep monitoring.”

The estimation is that by 2020 about 50pc of the world population will be to the north of Australia and that is an exciting opportunity that brings with it a number of challenges.”

Ms Purser said any geographical advantage quickly disappeared through Australia’s uncompetitive, inefficient supply chain and this meant less money for growers.

Here she discussed the volatility of the freight market and the need for clear communication and honesty at all levels.
National rural debt balloons to $66b

By COLIN BETTLES

WA farmer Ray Marshall is sounding the alarm bells over a national rural debt that has more than doubled over the last 10 years.

And he believes the debt is unsustainable.

Last week, Mr Marshall circulated disturbing figures from the Reserve Bank of Australia (RBA) saying the national rural debt has escalated sharply from $31 billion in 2003 to $66b last year.

"To be brutally honest I was gobsmacked when viewing the figures," Mr Marshall said in an email sent to media and other stakeholders.

According to the figures, the national rural debt has only declined in three years since 1965 — 1972, 1991 and 2010.

Mr Marshall said farm input costs had increased exponentially in recent years, while farmers received insufficient financial returns for the various food and fibre products they produced.

He said it was ironic that large banks, supermarket giants Coles and Woolworths and even WA's huge grower-owned co-operative CBH, had all increased the size of their businesses substantially, while the plight of farmers declined.

Mr Marshall said some commentators would blame the sharp debt increase on the 10 year drought in the Eastern States and similar natural disasters, like floods and fires, throughout the nation.

But he said WA produced a record grain crop in 2011 of about 15 million tonnes and the rural debt still increased by $2b.

Mr Marshall said high interest rates, high grain handling and receival fees, inefficient transport and infrastructure systems, high input and machinery costs and other factors, were all adding to the debt and reducing farmers' profitability.

He said naive governments and activist intervention into industry and trade, like the snap ban on live cattle exports to Indonesia in June 2011, were also hindering farmers' viability.

"We can't keep going," he said.

"Normally I'm an optimist — a glass half full type of bloke — but these figures tell me things are no good.

"Farming is just about stuffed because we can't compete."

Mr Marshall is an experienced grains industry lobbyist and key member of the WA Grains Group which was formed in 2007 to focus primarily on issues concerning farmer viability.

The former WA Farmers grains council president was motivated to obtain the RBA figures from his bank manager after holding similar conversations with other concerned growers over the Christmas and New Year holiday period.

"You can speak to sheep and grain farmers or any other type of farmer and they all feel like they're busting their gut for nothing," he said.

"We're just not getting enough return for the products we produce but input costs are going up and up and up.

"It's the old cost-price squeeze."

"I've spoken to a few younger farmers about the issue and they're saying the same things and those I speak to who are my age say they've never seen things so bad.

"It's about time people became aware of the state of farming in this country because the national rural debt is at $66b and growing which is just unsustainable."

Mr Marshall said a key solution was to increase the importance of farming and agriculture on the national agenda.

"The National Farmers Federation will adopt a similar theme when lobbying during this year's Federal election campaign, to seek greater recognition for the nation's leading decision-makers.

Mr Marshall said when consumers visited the supermarket and saw two food items to choose from — the cheaper imported product and the one that's more expensive but locally produced — they also had an opportunity to make a strong statement, backing farmers, with their commercial decisions.

"The choice is simple; do you want us farmers or don't you?" he asked.

Kulin meeting to focus on rural debt

By COLIN BETTLES

EXPANDING rural debt that's approaching $70 billion nationwide will be placed on the agenda at a meeting in the WA Wheatbelt town of Kulin this Friday.

The event is being organised by WA Farmers Lake Grace Corrigin zone president Bob Iflla.

While stopping short of calling it a crisis meeting, Mr Iflla said farmer morale in the WA Wheatbelt was shocking as many faced up to a make or break season.

Reports suggested some farmers had been hit with losses from the previous season of up to $1.2 million, due to lower grain prices and lower yields.

One prominent WA grower was reported to have lost $500,000, despite having his second best return on grain volume.

The crisis forced WA Grains Group chairman Doug Clarke to say there were 30 per cent more farms on the market for March than what was historically normal.

"There's a lot of pain out there, ask any of the consultants they will back it up," he said.

He said an unusually large percentage of farms were still listed for sale.

He said there was some interest in buying up farm land from foreign investors like the Americans, Chinese and Middle Eastern nations, but the sale prospects remained bleak.

Mr Iflla said he believed about 400 to 500 farmers were at risk of not getting carry-on finance from the banks, to plant this year's crop.

Mr Iflla said Friday's meeting (1.30pm at the Kulin Recreation Centre) would see various politicians and candidates for rural seats invited from all parties, ahead of the March 9 State election.
Total rural debt

$R^2 = 0.99299$


Total rural debt
Trendline
Hardship against grain for top cockie

WA's biggest grain grower John Nicoletti says he's $40 million in debt and can't afford to plant this year's crop after a run of bad harvests and falling land values. Mr Nicoletti, who owns or leases 142,000ha on eight farms across the State, will join fellow cockies meeting Colin Barnett tomorrow when the Premier visits Moorine Rock to discuss the crisis affecting farmers.

WEST BUSINESS LIFTOUT INSIDE

Picture: Lee Griffith
Figure 3. Grains Sector Total Factor Productivity Growth Over Time

- Total factor productivity (TFP) index

1977–78 to 2007–08: 1.9%
1977–78 to 1993–94: 4.4%
1993–94 to 2007–08: -0.9%

Source: ABARE
* Wheat figures for 2011 are from ABARES. All other figures sourced from FAO.
February 2012 was the record-breaking month over the 14 years ASIC has been tracking data, with 1,123 companies collapsing.

Nationally, court wind ups increased 23.48% in October; creditor wind ups were up 11.31% and receiver manager appointed administrations were up 35.29%, as reported in Taylor Woodings, Insolvency Insights – October 2012. They also report that since July 2012, monthly insolvency appointments have been running well ahead of GFC levels.

Source: ASIC/Colliers International Research
INVESTORS LOSE PATIENCE

Working capital dries up for smaller gold producers

The latest quarterly season is not off to a promising start for WA’s smaller gold producers, with several company collapses sure to increase scrutiny of margins and operating costs in the sector. The collapse of Navigator Resources shortly before Easter was hardly unexpected, but the decision of Kenton Gold to call in the administrators at its Murchison operation adds to concerns about the ability of the brownfield projects at Silver Lake this week, with shares taking a 17 per cent hit after the company announced the sale of its interest in Kenton’s WA subsidiary, and the exit of Apex. It is this — investors and financiers have lost patience with underperforming miners — that quarterly report this month, but still a way to fall if problems emerge.

Other smaller and medium-size producers will also be scrutinised. To point at just a few: Kalbarri Gold Mines has only just begun production, but generally can’t afford many hiccups; Tanami Gold’s issues have been well canvassed but remain. Investors will want improvements at St Barbara’s non-Australian operations and at Regis Resources.

Western Areas pleads fail to halt share slide

Western Areas shares barely budged yesterday despite news of a 27 per cent rise in production in the quarter. It is not that the market is not interested, but the cost of putting on a lot of new gold and platinum isn’t enough to get the investors interested. The company has a lot of potential, but it is not known how long it will take to develop.
Greener Pastures: The Global Soft Commodity Opportunity for Australia and New Zealand

Port Jackson Partners

ANZ
• Australia and New Zealand stand to capture an additional **A$0.7-1.7 trillion** and **NZ$0.5-1.3 trillion** respectively in agricultural exports between now and 2050.

• However, both countries face significant headwinds and it doesn’t follow that seizing the prize will happen of its own accord.

• Maximising growth will require overcoming capital constraints, skill shortages, land-use conflicts and inefficient water markets, unfocused R&D and extension services, rising supply chain costs and market access limitations.

• Australia and New Zealand agriculture will need to find innovative ways to attract domestic and foreign investment between now and 2050:
  
  – **A$600 billion** and **NZ$210 billion** will be needed to enable production growth
  
  – A further **A$400 billion** and **NZ$130 billion** will be needed to support farm turnover

• Leadership and commitment from all stakeholders will be critical in unlocking the full potential of Australian and New Zealand agriculture.
...with particular shortages in key growth markets

**Arable land***

Hectares per person

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<td>Brazil</td>
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**Annual renewable water supply***

Million litres per capita

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* Land and water data for 2009. Renewable water supply includes freshwater only from surface and underground sources, which include rainfall.

Source: FAO
$147 billion debt incurring $7 billion interest
The biggest emerging markets are uniting to tackle under-development and currency volatility with plans to set up institutions that encroach on the roles of the World Bank and International Monetary Fund. The leaders of the so-called BRICS nations — Brazil, Russia, India, China and South Africa — are set to approve the establishment of a new development bank during an annual summit that starts Tuesday in the eastern South African city of Durban, officials from all five nations say. They will also discuss pooling foreign-currency reserves to ward off balance of payments or currency crises.

“The deepest rationale for the BRICS is almost certainly the creation of new Bretton Woods-type institutions that are inclined toward the developing world,” Martyn Davies, chief executive officer of Johannesburg-based Frontier Advisory, which provides research on emerging markets, said in a phone interview. “There’s a shift in power from the traditional to the emerging world. There is a lot of geo-political concern about this shift in the western world.”

The BRICS nations, which have combined foreign-currency reserves of $4.4 trillion and account for 43 percent of the world’s population, are seeking greater sway in global finance to match their rising economic power. They have called for an overhaul of management of the World Bank and IMF, which were created in Bretton Woods, New Hampshire, in 1944, and oppose the practice of their respective presidents being drawn from the U.S. and Europe.
Time to beef up agriculture

By ANDREW MARSHALL

WITH only 22 million people to feed at home, Australia needs a national focus on investing in profitable export channels to absorb up to 60 per cent of our beef output, says meat processor John Berry.

Meanwhile, Macquarie Bank’s Jock Whittle says our tangled web of different farm industry structures and lobby groups need refining to a more efficient and skilled force capable of streamlining the sector’s message in Canberra and improving its export effectiveness.

Both men were addressing key issues raised at last week’s International Food and Agribusiness Management Association (IFAMA) forum panel discussion.

Mr Berry, a director with Australia’s beef and sheepmeat processing giant, JBS Australia, said without a sharp national focus on developing export opportunities, including cutting out layers of government levies and making free trade agreements a priority with Korea, China and Japan, the meat sector would fail to achieve the momentum it needed.

It required a proactive export culture that promoted investment and efficiencies on farms and in processing businesses.

He said the only way to grow profitability was to help make the beef “cake” bigger, not cutting the existing market into more segments with more players taking a slice as exporters relied on traditional market destinations.

Current hurdles included multiple State and Federal compliance costs and a $60 million quarantine inspection bill paid by Australian export meat processors while our competitors in the US and Brazil had identical costs absorbed by their governments.

He said while Australia had frustrating technical access problems to many potential overseas markets, it still had a recognised premium beef product.

“Governments need to use Australia’s food safety reputation to maximise export opportunities,” he said.

“And now’s a good time in the political cycle for this whole issue to be front and centre.”

Mr Whittle, who heads Macquarie’s Paraway Pastoral farming business, said there was no silver bullet to achieve better supply chain productivity and efficiency, but a constant focus on many bits and pieces was his corporate operation’s strategy.

“Paraway’s not the cutting edge of productivity, but we’re looking at every opportunity to achieve more efficiency and we’re getting more kilograms from fewer beef numbers than five years ago,” he said.

“And while some people think the labour shortage situation in agriculture is a bad news story, I think we’ve overlooked how much more has been achieved with less labour in that period.”

Mr Whittle said similar efficiencies probably should apply to agriculture’s representative structures.

“The current industry structure — hundreds of different organisations from breed societies to State agripolitical groups — might have worked in 1998, but agriculture’s position is in the economy has evolved a lot in the last 200 years,” he said.

“We’re a lot smaller force yet we’re still supporting all the old structures and organisations.

“They’ve got all the right ideas but not the resources or skills to do an effective job.”

With so many organisations working at their own goals, governments were not getting a clear and effective message and could use the situation to their own advantage, often ignoring the results most needed by farmers, exporters and the economy.
Late 1970’s China set up 6 Special Economic Zones

- Hong Kong Special Administrative Region
- Macau Special Administrative Region

Special Economic Zones (SEZ):
1. Pudong District, Shanghai Municipality
2. Xiamen, Fujian Province
3. Shantou, Guangdong Province
4. Shenzhen, Guangdong Province
5. Zhuhai, Guangdong Province
6. Hainan Province
By 1990’s they had established, 15 free trade zones, 32 state-level economic and technological development zones, and 53 new and high-tech industrial development zones in large and medium-sized cities. As these open areas adopt different preferential policies, they play the dual roles of “windows” in developing the foreign-oriented economy, generating foreign exchanges through exporting products and importing advanced technologies and of “radiators” in accelerating inland economic development. 

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Problems with the Free Economic Zones

• Lack of consideration for the environment (rivers have disappeared)
• Displacement of farmers
• Loss of agricultural land
• Disproportionate wages (City earns three times the rural worker)
• Located in coastal regions therefore rural areas don’t benefit
• In India they were allowed to sell domestically which was in direct competition with existing businesses, causing conflict
Does China Plan To Establish "China Cities" And "Special Economic Zones" All Over America?

- By Michael, on January 22nd, 2013

What in the world is China up to? Over the past several years, the Chinese government and large Chinese corporations (which are often at least partially owned by the government) have been systematically buying up businesses, homes, farmland, real estate, infrastructure and natural resources all over America. In some cases, China appears to be attempting to purchase entire communities in one fell swoop. So why is this happening? Is this some form of "economic colonization" that is taking place? Some have speculated that China may be intending to establish "special economic zones" inside the United States modeled after the very successful Chinese city of Shenzhen. Back in the 1970s, Shenzhen was just a very small fishing village, but now it is a sprawling metropolis of over 14 million people. Initially, these "special economic zones" were only established within China, but now the Chinese government has been buying huge tracts of land in foreign countries such as Nigeria and establishing special economic zones in those nations. So could such a thing actually happen in America? Well, according to Dr. Jerome Corsi, a plan being pushed by the Chinese Central Bank would set up "development zones" in the United States that would allow China to "establish Chinese-owned businesses and bring in its citizens to the U.S. to work." Under the plan, some of the $1.17 trillion that the U.S. owes China would be converted from debt to "equity." As a result, "China would own U.S. businesses, U.S. infrastructure and U.S. high-value land, all with a U.S. government guarantee against loss." Does all of this sound far-fetched? Well, it isn't. In fact, the economic colonization of America is already far more advanced than most Americans would dare to imagine.

- So how in the world did we get to this point? A few decades ago, the United States was the unchallenged economic powerhouse of the world and China was essentially a third world country.
Corsi noted that the U.S. government has created 257 foreign trade zones, or FTZs, throughout the United States, designed to extend special U.S. customs treatment to U.S. plants engaged in international-trade-related activities.

The FTZs tend to be located near airports, with easy access into the continental NAFTA and WTO multi-modal transportation systems being created to move free-trade goods cheaply, quickly and efficiently throughout the continent of North America.

“There is nothing in the U.S. government’s description of FTZs that would prevent a foreign government, like China, from operating a shell U.S. company that is in reality owned and financed by the Chinese government and operated through a Chinese government-owned corporation,” Corsi wrote.
Special economic zones in Nigeria

TUESDAY, 22 JANUARY 2013 00:00 BUSINESSDAY

In 2010, 87.3 percent of the $17.7 billion bilateral trade between China and Nigeria was in China’s favour. To reverse this growing imbalance, the Chinese government sought to establish special economic zones in Africa.

The Ogun-Guangdong Free Trade Zone and the Lekki Free Trade Zone (LFTZ) are two of eight Chinese special economic zones (SEZ) approved by the Chinese Ministry of Commerce in 2006. The primary motive for these special economic zones is economic. That is, to increase Chinese multinational companies’ Nigerian market share; to expand the Nigerian market for Chinese manufactured goods; to increase China’s presence in Nigeria’s oil and gas sector; and to leverage its investment in Nigeria as a gateway for entering the ECOWAS market.

However, only the EPZ in Egypt has taken off. The SEZ, when it takes off, will become a light manufacturing and a high-tech agricultural demonstration park. Besides, competition is stiff – India, Bangladesh, Mexico and Vietnam have competitive labour markets.

The first phase of the LFTZ – it is estimated that it will cost $5 billion to develop 30 square kilometres of the 165 square kilometres – is scheduled for completion in 2014. China-Africa Development Fund (CADFund), China’s largest private equity fund with an African focus, is one of quartet that formed a consortium of Chinese companies that partnered with Lagos State. An oil refinery, to be built and operated by China State Construction Engineering Corporation (CSCEC), is expected to produce 300,000 barrels of oil a day and 500,000 metric tonnes of liquefied petroleum gas each year.

LFTZ has attracted, so far, $1.1 billion (N170.5 billion) investment commitment from 48 investors, according to the Minister of Trade and Investment in 2012. A 2011 World Bank report lists four key challenges: developers’ dearth of management capabilities; unequal status of developers and host government; absence of off-site infrastructure; and high cost of finance.

Management skills, “software”, are as important as infrastructure, “hardware”. Those developing the zones are grappling with how to import best practices, e.g., operating and financing models from SEZs in China to host governments. “Learning and knowledge sharing should be given higher priority” to overcome these challenges.
The first modern special economic zone was created in Puerto Rico in 1942. Since then, 135 countries, many of them emerging markets, have developed over 3,000 zones. Their development has helped to improve global trade relations and has created over 70 million jobs and hundreds of billions of dollars in trade revenue.
Benefits of Free Economic Zones in Agricultural Regions
Our Vision/Discussion

• Capital Investment (A$600 billion required in Australian Agriculture)
• Economic growth (specifically targeted at agriculture)
• Opening direct trade linkages between countries (reducing supply chain costs)
• Decentralisation (not coastal)
• Creating industry clusters of suppliers and institutions to support this industry/growth
• International Air Freight Terminal in the wheat belt to deliver direct to inland cities
• Live animal export via air transport (reduced stock going through Ports)
• Feed lots of all animals for export (poultry, cattle, pigs, sheep, goats, eggs)
• Clusters of suppliers for (grain, hay, straw, poultry, cattle, pigs, sheep, goats)
• Clusters of institutions (DAFWA, TAFE and universities, health, study and research)
• Possibilities - IBC’s of milk, wine, legumes
• Increased population in the wheat belt (become politically relevant, increase students in schools, increased use of existing facilities)
• Increased trade, increased access, increased demand for our products,
Strengths Of The Rural Areas

- An abundance of spatially populated land (no displacement of people)
- Environmentally clean and green
- Feedlots would be close to the grain supply (value add the grain here as an alternative to being exported)
- Farmers have more options for their produce and reduced supply chain costs
- Reduced chance of epidemics due to isolation (bird flu)
- Opportunity for power generation (wind, solar, methane)
- Water (large catchments)
- Opportunities for processing meat for export
- International Cargo Airport (in the wheatbelt)

1. Disrupts less people
2. Opportunity for live export
3. Opportunities of export of frozen/chilled produce
4. Decentralisation
5. Opportunities for other businesses due to direct access to an airport
6. Development of service industries (catering, accommodation)
Economic Freezones