Economics for business

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Economics for business

# ***Introduction***

One of the largest continents in the world, Australia as a continent and a country is truly magnificent. It is a common held belief regarding Australia that it is an underpopulated wealthy country, which unfortunately gets hit by numerous natural disasters each year. The country’s economy mostly depends on the agriculture production and the Foreign Direct Investment. There are two distinct and comparatively different features of the Australian economy. The first would be the hindrance in the acceptance or significance of the Asia-Pacific region (Anderson, et al, 2016, pp. 299-319). Developing an understanding of this region and its opportunities is extremely important for the country. Second is the acceptance of rationalization in the upper diaspora of the country’s financial, political and bureaucratic framework. This rationalization revolves around economic philosophy that the importance and inevitability of globalization. Under these above circumstances, this piece of work focuses on analyzing the agriculture production industry of Australia. This report will specifically focus on the market structure of the industry, the issues associated within the industry and their impacts on the industry, and the government’s policies regarding solving those issues.

# ***Industry background 451***

Australia’s agriculture industry accounts for the total fifty eight percent usage of the land and around fifty nine percent of water usage. Furthermore, around fourteen percent of goods and services export come from this industry. This all adds into the fact that this industry accounts for almost three percent of the whole GDP (Gross Domestic Product) and also provides three percent employment in the whole employment sector of Australia. This data shows that the industry has been one of the strongest one’s within Australia. Moreover, the growth in the value of agriculture industry was thirty four percent from around forty nine billion dollars in 1999 to around sixty six billion dollars in 2018.

The agriculture production industry in Australia is highly diversified and is formed up of different entities. These entities are either further involved in services related to agriculture or in the production of agriculture related products in relation to the supply food chain. These entities are of varied nature and consist of processors, wholesalers, primary producers of commodities related to agriculture and manufacturers. Weather is one of the important factors that influences the farm yields and is a reason for the prices that are put into the supply chain (Jackson, et al, 2019, pp. 2-3). Moreover, it has also led to the fluctuations in the revenue in each segment of the agriculture industry over the period of the last five years. But due to the prevalence of diversity within the industry, it has been able to offset the effects of these fluctuations on the different sectors overall. Further analysis has shown that there is a forecasted increase in the revenue annually by a factor of 2 percent over the next five years. This level of competitiveness has allowed the Australian agriculture production industry to hold a monopoly in the whole world in comparison to other countries that have shown to have a higher income.

There are two main components of the Agriculture industry such as cropping and livestock. Around thirty one percent of the whole agriculture industry of Australia is dependent on cropping, whereas, forty four percent is dependent on livestock. The growth factors for each component has been of a varying nature. If an analysis of the livestock component of the agriculture industry is to be done, it can be seen that the dairy and beef sectors have witnessed growth with different rates. These growth rates were due to certain factors that were predominant in the economy such as the high prices and the drought in the United States of America. Furthermore, Australia in the livestock business is leading the world in terms of production of wool. This is because it exports and supplies around one-third of the total production in the world.

# ***Market structure 444***

If the performance of the industry is researched based on the sector level performance then it is clearly identified that the performance was driven by the farms that were the most productive. Their growth had been due to several factors, which has allowed growth to increase from three percent to sixteen percent. Furthermore, this growth has led to an overall increase in the share of output from twenty five percent to sixty percent of the overall figure. Focusing singularly on regions and sectors, it can be seen in the farms that are large in size have been more productive and able to generate more profit. This means that if there were a structural change in the current framework of farming than they can also be highly productive and be able to increase the level of competition within the industry.

A more detailed look is required of the current structure of the Australian agriculture production industry. It can be seen that the market conditions has allowed the best managers an ability to operate large farms. The size of farms have increased overtime in terms of receipts and the total area but the number of farms overall have also decreased. The increase in farm size has helped in increasing productivity through different channels. These channels include access to improved technology, flexibility in management of labor, developed practices implemented towards farm management and increased access to economies of scale that have shown to be more positive in nature. Another important point to consider for this increased development in this sector is the immense deregulation of the predominant agricultural market and introduction of microeconomic reforms in the whole economy.

Large farms have seen to be more productive and also more profitable. To support this notion, an analysis has been done that shows if the output per hectare of all farms was increased to those of the highest performing farms then there could be an increase of eighteen percent in agricultural output. Over the years it has been witnessed that farmers in the Australian agriculture industry have been able to achieve strong growth in productivity historically. Furthermore, they have also been able to show an increase in the output volume using only some certain inputs. This growth and productivity has enabled the farmers in Australia to compete in productivity with farmers in other countries that generate a higher income. It is understandable that smaller farms are less profitable compared to the larger farms but in comparison to Australian households they fare much better. This is because they have a comparable high income, lower amount of debt and a higher net wealth in comparison to the average household in Australia.

# ***The industry’s associated issue***

Australian agricultural production industry has been at the brunt of several threats and issues that have started to hamper the growth of this industry. The two most prominent factors that this industry has to deal with are high variability in the climate and increased volatility in the prices of commodities. There are also other factors and issues that are prevalent in the industry. These issues are concentration of the farming sector, indigenous holding expansion, resistance by customers regarding products that are considered unnatural, vertical coordination of the supply chain and the politics regarding the global environmental change (Lockie, 2015, pp. 7-11).

## *Climate Variability*

Recently, Australia has suffered from a drought that has severely impacted the agriculture production industry in Australia. The recent drought in Australia has been seen as one of the worst droughts in around eight hundred years of the country and the continent. Australia has had a long history of drought, blistering heat and floods but their size and intensity has been up for debate. This is due to the fact that there have been limitation in observational and historical recording of such events.

## *Volatility in Commodity Prices*

A hike in prices of agricultural commodities has been seen in Australia and has presented serious challenges for the different participants of the market. These participants include the investors, customers and the producers. This volatility in commodity prices has led to a deficiency in growth in at the macroeconomic level. The reason for such a hike in commodity prices has been characterized by some researchers as supply change and changes in the demand factors.

## *Concentration in the Farming Sector*

Due to depopulation and increasing age within the inland, Australia has seen one of the factors for the decrease in the concentration in the farming sector. Furthermore, there has been witnessed a decrease in providing of services and amenities that are important for the agriculture industries in rural areas. Moreover, as there is less recruitment of youth in farming and the disproportionate employment of women in farming has further led to a decrease in the concentration in the farming sector.

## *Expansion in Indigenous Holdings*

Many aboriginals and Torres Strait Islander Australians have an aspiration to settle down on traditional lands. They want to live on these lands, care for them and derive their livelihoods from these traditional lands.

## *Resistance towards Unnatural Products*

In recent years, a movement has emerged among the consumers of the products and services provided by the agriculture production industry regarding unsustainable, unnatural and cruel products. Campaigns and boycotts have been all the rage right now against technologies and practices that are thought to be controversial. But this has led to growth in organic and alternative food markets.

## *Vertical Coordination of Supply Chain*

Due to a highly concentrated retail sector there has been an emergence of vertical coordination of supply chain. This is due to the fact that there is less importance of markets such as spot or wholesale to large retailers. Furthermore, increased foreign ownership of the processing facilities has also been a leading cause for this issue.

# ***Impacts of the issue on the industry and on the Australia economy***

These issues have heavily impacted the agriculture production industry within Australia. Furthermore, these issues are not only impacting the industry but the economy of Australia as well (Smith, et al, 2018, pp.1185-1199). Their impacts are listed as follows.

## *Climate Variability*

As mentioned above, the recent drought of 2018 - 2019 has been the worst one to hit Australia till date. It has been detrimental for the industry and the economy as well. Due to this drought, the value of production on a farm is expected to decrease by four percent to fifty eight billion dollars. This is a huge price tag that will be incurred onto the economy of the country. Moreover, due to this drought, food production is expected to decrease. This is due to lower yield of growth and production of low quality crops. Furthermore, due to shortage of water farmers would have to spend more irrigation and will have to look for alternative sources of water. This all will further lead into a hike in food prices.

## *Volatility in Commodity Prices*

The volatility in commodity prices is arising due to the changing nature of demand supply of agricultural products. So according to ABARES (Australian Bureau of Agricultural and Resource Economics and Sciences) is expecting a hike in prices of livestock compared to the last three year prices. Furthermore, crops such as cotton will have a seemingly high prices and this is due to the fact that the drought has destroyed most crops. This makes the demand for the product high compared to a low supply.

## *Concentration in the Farming Sector*

The impact of this would be the widening of the gap between rural and urban Australia. Furthermore, there is even a possibility of the collapse of the non-agricultural economy in rural areas. This is definitely not suitable for tourism and residential development. Moreover, there will be an increased dependence on international labor in order to meet the demand for expertise in supply management. This is also becoming a leading cause of depopulation and other trends that are associated with it.

## *Expansion in Indigenous Holdings*

This actually has positive impacts for the economy and the agriculture production industry of Australia. This is because as more and Aboriginals and Torres Strait Islander Australians start producing on their lands they will be benefitting the economy as a whole. This will lead to the development of agricultural enterprises that are economically viable on traditional lands. Furthermore, with them living and taking care of the land they are living on, this will definitely improve the current distraught conditions of such lands.

## *Resistance towards Unnatural Products*

This will heavily impact the image of Australia as the clean and green agriculture producer of the world. This will be detrimental for the country’s imports as there is a huge wave of clean and green products washing over the world. Customers want products that are organic and without additives and if their demands are not met than a loss of market share in the world is expected. Furthermore, if the agriculture production is not aligned with the demands of the consumers than a global supply would even be reorganized in such a way that it excludes Australia.

## *Vertical Coordination of Supply Chain*

This will hamper the rate of productivity in the industry, which will then affect the economy in the overall sense. Furthermore, if supply chains become retail oriented than there is a possibility that the economies of scale that will be achieved will favor suppliers of a large nature. Moreover, if this issue continues forward than the products with high and low value would be mixed with each other. This will lead to the possibility of the customer using a faulty product that might be harmful to them.

# ***Government policy***

Government authorities has taken a lot of initiatives that can help to address the issues and complications in terms of drought. It is asserted that the Government has started both profit and non-profit organizations so that the desires of the people could be addressed. These plans include water resource management, analysis of the food products along with its division and the provision of resources. Moreover, the government started initiatives such as land care reforms and water management plans. The aim of all such plans was to ensure that the victims of drought can be treated and they can be restored to a normal health.

# ***Conclusion***

Taking into account an in-depth analysis of the facts and figures that are associated to the development of country, it is asserted that Australia has faced a lot of drawbacks as well but they were not too determined to affect the economy. Australia has addressed its barriers with great efficiency and productivity.

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