

Supply and demand: Your struggle

By TOM RAFFERTY

It has been almost 70 years since the start of the Second World War, so why do I believe we still have a fight on our hands?

At 11am on September 3, 1939, Neville Chamberlain made his famous "We are at war with Germany" radio broadcast. Reams have been written about the war and why it started. One factor was the economic situation in Germany and the German view of how they got there and who was to blame.

There are some weighty lessons from history. If we forget them, we are doomed to repeat them. Alternatively, as my acerbic countryman George Bernard Shaw put it: "One thing we have learned from history is that we have learned nothing from history."

There is a profound message from the Second World War for organic growers: "Export or die". This was the catchcry in Britain after the war. This was how the government was going to get the economy back on its feet.

They went to great lengths to develop exports, especially in the motor industry (for those of you born after 1970, yes, the Brits once had a motor industry). Their forte was designing and building leaky oil barrels.

They were a bit difficult to move around due to their weight, so some bright spark put a wheel on each corner and stuck a motor and a badge on it – and called it an Austin. These things did not just leak oil, they haemorrhaged.

The government of the day went to great lengths to bolster exports. They put taxes on domestic consumption, in some cases over 30%, forcing manufacturers to export a certain proportion of their output.

In modern Australia, the government is unlikely to do this (please, tell me GST will not get to 30% and be applied to food). Nevertheless, our government has always recognised the importance of exports. That is why we have people like Austrade, and Departments of State Development.

So, what is the lesson? Well, like many of the German problems between the wars, it comes down to economics. Sure, it might be a long bow I'm drawing here but bear with me.

There are 20 million people in Australia (give or take a



few). There is only so much they can eat before they explode and make a terrible mess. We have a very highly concentrated retail sector – just go and tell Coles or Woolworths to get nicked and you will get an insight into retail consolidation and some of its consequences.

What it means, in simple terms, is that our organic (and conventional) growers are fighting over a relatively small market that is geographically dispersed. Generally, this is not a good strategy — there will be tears before bedtime!

To give this some context, Taiwan has a population of 23 million and is about half the size of Tasmania (less than half a million people). Hong Kong, a city just over 1000 square kilometres, has a population of almost seven million. NSW has a population of almost seven million and the Hong Kong population would fit into it 800 times.

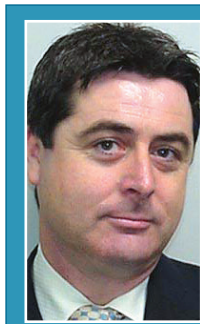
Singapore has a population of 4.5 million and it would fit into the ACT four times. But please, let me labour the point, depending on what reports you read, there are 150-200 cities in China with a population each of over one million people.

So, what is the economic problem we have? The simple answer: supply and demand. All our growers are fighting over 20 million people. In doing so, they behave in a most peculiar way.

The laws of supply and demand go something like this: If there is more product available than people want, prices go down. If there are more people than product available, prices go up.

Here is where the strange behaviour begins. When you have a good year, generally you will produce a high-quality crop in great abundance. When this happens, you get per tonne, per bag, per bunch or per slice, a price that is below average. However, because there is so much produced, you will probably end up with more money at the end of the season. When the tables are turned, you have a bad year.

You do not produce as much but you get more (per tonne, per bag, per bunch or per slice) than average, so while volume



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1. A natural-products store in Tokyo stocks many organic products, including ACO-certified Douglas Park organic juices.
2. Japanese girls in *kimono* at the Australian Certified Organic stand at the BioFach Tokyo organic trade fair. Organic products received inquiries and feedback on suitability for export.

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and quality may be down, prices are up. This is bizarre and it is unique to agricultural production. Essentially, you get the best price for the poorest output.

Another factor that comes into play is that we export relatively little of our agricultural production. Wheat, beef and wool (to a lesser extent) are an exception – we export lots of these commodities. However, the same cannot be said for fruit and vegetables; we only export about 5% of our horticultural output.

This is a problem because in a bumper year, if we only export a small percentage of our output, we have to find a market for most of it domestically. And as there are only 20 million people, there is a limit to the amount they can eat, even including the morbidly obese.

So, what do we do? Simple, we take a leaf out of Adolf Hitler's book: Export or die. It is not easy but it is not that hard either. Many of the logistics and supply-chain problems have actually been solved. Just find some experts to help, and the money to pay them.

There are lots of them about in fields such as marketing, supply chain, freight forwarding, customs clearance, transport, distribution and packaging. You will have challenges in all

these areas, and if you are a good grower, chances are that you are not quite up to scratch in these areas. Interestingly, if we could export 10% of our horticultural produce, that would be 10% not available for domestic consumption. What would happen? Well, with less available locally, the price would probably rise. So, you get two bites at the cherry.

Develop some product for the high-quality end of the export market and make above-average returns. Then there is less for the domestic market and this should lead to above-average returns at home too.

The phrase "export or die" has an interesting genesis. In his widely reported speech to the Reichstag on January 30, 1939, Hitler announced Germany must "export or die". There had been a severe fiscal imbalance in Germany and hyper-inflation. Even the smallest purchase required a wheelbarrow full of money.

Of course, our modern economy is a far cry from these pressures. But can you say the same for your individual enterprise? A business that constantly increases its output and places this output into one market will suffer consequences similar to hyper-inflation, though not so dramatically.

In a situation of hyper-inflation, prices rise rapidly and currency diminishes in value. Hence, wheelbarrows are preferred to wallets.

A business that floods a relatively small market (Australia and the 20 million that live here) will see production rising rapidly as prices diminish. Ultimately, growers participate in a race to the bottom, where one person loses last.

Hitler wrote a biography of sorts, *Mein Kampf* (*My Struggle*). The Australian economy and population is *Dēin Kampf* (*Your Struggle*). Ignore them at your peril. ■