If you are participating in the presentations this year, please provide a written report and a copy of your final report presentation by 31 October. If not, please provide a written report by 30 September.

Part 1 - Summary Details

Please use your TAB key to complete Parts 1 & 2.

CRDC Project Number: **CRC145**

Project Title: Australian Cotton Comparative Analysis 2006 Crop

Project Commencement Date: 2006 **Project Completion Date:** 2007

CRDC Program: Capacity Community

Part 2 – Contact Details

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Part 3 – Final Report Guide (due 31 October 2008)

(The points below are to be used as a guideline when completing your final report.)

Background

The 2006 Australian Cotton Comparative Analysis (ACCA) is the sixth report produced by Boyce Chartered Accountants in conjunction with the Cotton Research & Development Corporation (CRDC) / Cotton Catchment Communities CRC.

In this report, we present an analytical review of the 2006 results, a comparison with prior years and comments on emerging trends. Feedback from participants and growers has been very positive. The clear message in this and previous reports has been the required focus on yield as opposed to cost reduction or price enhancement. In the 2005 report we highlighted that, due to drought in the 2003 and 2004 years, the reduction in area grown on each farm during these years caused a significant increase in the per hectare non direct costs such as depreciation, interest, wages, repairs and maintenance, and channel spraying. When reviewing the ten year schedules, this needs to be taken into account. To state the obvious, water makes a world of difference. Again in the 2006 year the area of cotton grown has been significantly affected by water shortages (but not quite to the extent of 2003 and 2004).

Objectives

Financial analysis using comparative statistics helps farmers identify relative strengths and weaknesses. Accompanying budgets and long term business plans will then focus on ways to overcome weaknesses and build on strengths. In other words, this comparative analysis is a management tool to implement change and to identify where effort should be directed on a day to day basis. Obviously, this analysis does not provide all the answers. It is a benchmark or a standard to strive for. It is up to management to develop and implement specific action plans, based on their improved knowledge, to reach new goals set. These reliable, independent figures are the starting point for farmers to develop "best practice". We encourage participants in this survey to discuss their results with us and to clarify any queries, so everyone can develop a better understanding of the industry.

Outcomes

After the excellent yields achieved in 2005, the 2006 crop will be remembered as being a tough and disappointing year. High temperatures in November, December and January and a shortage of water resulted in lower yields and higher micronaire. For some growers, the lack of water to finish the crop meant that yields of only 7 bales to the hectare were achieved. Some of the farms in the McIntyre and Gwydir valleys had sufficient water to grow close to their full production. However, the Macquarie valley continued to suffer from the drought and only had enough water to grow a small portion of their area. The decrease in the water allocation and the amount of water held in on farm storages at the start of the year had a significant effect on the number of growers in the sample and those who did participate had reduced plantings. For the average grower, the total income per hectare ($3,767) was $603 less than the 2005 year ($4,370). This is mainly due to a $56 decrease in price per bale as well as a reduction in the yield of 0.11 bales/ha.

When you review the average expenses for the past ten years, the 2006 crop expenses have increased significantly on the prior year - $3,352 in 2006 compared to $2,949 in 2005. There were large variances in many of the numbers when compared to the prior year. Some of the increase is due to a reduction in the economies of scale and the effect that this as on fixed and semi-fixed expenses, however, many of the direct growing costs also increased dramatically.

The main increases were in Chemicals – Insecticide ($94/ha), Fertiliser ($114/ha), Fuel and oil ($94/ha) and Water charges and purchases ($75/ha).

This year we have again included trend lines in some of the graphs presented. Interesting trends from 1997 to 2006 have emerged including the following:

- The net price per bale is decreasing, $460 to $440/bale – 4% decrease
- The yield per hectare is increasing, 7.4 bales/ha to 9.3 bales/ha – 26% increase
- The average operating profit per hectare for the average grower is decreasing
- The gap between the operating profit per hectare for the top 20% and the average g grower is widening.

The drought has distorted the 2003, 2004 and this years' data. Accordingly, when using this analysis to assist with a review of your own operations and with the preparation of budgets, we recommend that you look at the 2005 year and the 2002 and prior years' data because these were the last "normal" years.

Conclusion

The drought across all the cotton growing areas continues to impact greatly on the cotton industry. The 2006 year was a step backward compared to the 2005 year, although for most growers it was not as bad as the 2003 and 2004 years. The gross income was down due to both a reduced yield and a greatly reduced price. The average price has dropped 31% in the last two years. The yield was down on the 2005 year but up on the 2004 year. For the average growers, the per hectare costs increased 14% on the 2005 year, due partly to an increase in direct costs but also due to an increase in fixed and semi fixed costs being spread over a small area. The combination of the above meant that it was the worst operating profit result since 1999. After interest, the average grower made a loss of $95 per hectare.

The growers, who were not as severely affected by the drought, and therefore were able to grow a greater area of their farm, had a reasonable result, although it was down on the 2005 year. Operating profit of $1,664 in 2006 compared to $2,282 in 2005. There are still many cotton growing areas that continue to be affected by the drought, particularly those in the Namoi, Emerald and Walgett/Bourke valleys who did not submit their figures as they either grew a mixture of solid and skip row, or no cotton at all.

Again we stress that the analysis is not a measure of the health of the industry but a means of comparing your farm to the average and top 20% with the aim of improving your own performance. Although we have not attempted to analyse in detail the return on assets from a capital growth perspective, we have noted that, in the past, many growers have obtained a large increase in their net assets from the increase in the value of land and licences, rather than the accumulation of profits. All farmers need to understand what it takes to be in the top 20% and strive to ensure their business implements the necessary changes to achieve this objective.

This report has continued to measure the components that give farmers a stronger financial bottom line. The industry continues to reinvest in BMP, sustainability programs and in the communities in which it operates.

Publications

Australian Cotton Comparative Analysis: 2006 Crop

Part 4 – Final Report Executive Summary

The industry has been hit by the unreliability of water in the past few years. It is worthwhile to stress that, in drought years, a grower may not be included in this analysis as they may not have grown a crop under normal irrigation practices. If you assume that the figures would not have shown good profits in that year, then the 5 and 10 year average figures should not be used as an indicator for industry profitability.

As a general statement, the 10 year average figures should not be used when analyzing the profitability of the industry as a whole without making an allowance for the drought years where the figures on non irrigated farms will not be included in the report.

- As in previous years, the analysis includes the results of farmers who were able to plant, grow and pick their crop using close to normal irrigation practices. In the sample there may be some growers who had to stretch their water or were unable to give part of their crop a final water. The total number of hectares in the sample decreased again due to a decrease in the availability of water throughout many of the cotton growing areas of Australia. The average hectares planted per participant decreased from 1,027 hectares in 2005 to 889 hectares in 2006.
- It is important to note that the analysis does not show the health of the cotton industry. Where a cotton grower grew skip or solid cotton that did not receive the full water, or grew no cotton at all, these figures are excluded from the analysis. In most, if not all cases, these alternate crops would have returned a reduced profit in comparison to growing fully irrigated cotton. Therefore, although the grower may have made a healthy per hectare profit on the hectares grown, the net profit of the total farm would have been significantly less than if the grower was able to have normal production.

- While recognising marketing as an important part of management, growers and interested parties were concerned that participants in the top 20% may be there only due to receiving a high cotton price and not as a result of good farming practices. Alternatively, good cotton growers, due to adverse currency, lint and basis positions, may have been excluded from the top 20%. As many growers review their operation against the top 20% to look for areas of improvement, it was suggested that the top 20% and bottom 20% be selected using an average price. We have therefore selected the top 20% and bottom 20% by substituting the price that the grower received with a price of $375. This was the average net price for all participants. Using this average price, the participants with the highest and lowest operating profits per hectare were noted for inclusion in the top and bottom 20%. Even though the average price was used to select the participants in the top and bottom 20%, the growers' actual figures are reported in this analysis.

Financial analysis using comparative statistics helps farmers identify relative strengths and weaknesses. Accompanying budgets and long term business plans will then focus on ways to overcome weaknesses and build on strengths. In other words, this comparative analysis is a management tool to implement change and to identify where effort should be directed on a day to day basis.

Obviously, this analysis does not provide all the answers. It is a benchmark or a standard to strive for. It is up to management to develop and implement specific action plans, based on their improved knowledge, to reach new goals set. These reliable, independent figures are the starting point for farmers to develop "best practice".

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