Media release
August 26, 2014

New infrastructure investment leading to transformational change in Australian grains – industry report

The Australian grains industry is set to undergo a dramatic transformational change, as new investment in grains infrastructure results in a move to differentiated supply chains and long-term commercial partnership between industry players, according to a new research report.

The report, ***Australian Grains – Infrastructure Growing Pains*** by agribusiness banking specialist Rabobank, says this structural shift – going from a monopolistic supply chain structure in most regions towards multiple grain export supply chains competing side by side – will impact all industry stakeholders, from farmers and grain marketers through to supply chain operators and export customers.

New grain port infrastructure on the eastern seaboard and in Western Australia is anticipated to change how market participants interact with each other and signals a move towards exclusive supply chains and long-term service agreements," the report says.

And this will likely be good news for grains farmers, resulting in increased competition for grain at farm gate level and overall higher prices.

"As the industry moves towards a more fragmented and competitive grain supply chain system, the formation of long-term supply chain partnerships will be crucial," the report says. "Partnerships between growers, marketers, supply chain operators, capital investors and export customers will dictate how grain infrastructure is utilised and will influence the winners and losers throughout the chain," the report says.

Report author, Rabobank senior grains analyst Graydon Chong says recent development of port infrastructure around Australia has already resulted in partnerships between multinational companies who have co-invested in the infrastructure, while at the same time creating competition for the incumbent supply chain operators. This investment includes the new terminals at Newcastle and Port Kembla, in New South Wales, and Bunbury, in Western Australia.

'Feeding' over-capacity

The report says competition for grain to 'feed' a port system which is already significantly over-capacity is one of the key drivers of the new dynamic in grain.

"Australia's new grain port infrastructure investment is expected to exceed $A150 million over the 2012 to 2015 period, resulting in additional grain export capacity for the nation," Mr Chong said.

"Average annual Australian grain production over the past five years has been 38.9 million tonnes, peaking at 43.8 tonnes in the 2011/12 marketing year, and this was already significantly less than the 55 million tonnes of up-country and port storage which existed in the storing and handling networks prior to this latest round of port infrastructure investment.

"With this significant overcapacity in the system, supply chain operators are likely to face strong competition for grain."

In this way, Mr Chong said, co-investment in port infrastructure had raised the incentive for supply chain operators to form partnerships along the supply chain to maximise the utilisation of infrastructure assets. "And particularly in a model which is heavily reliant on throughput of volume for economic returns," he said.

Up-country investment

The investment now being seen in port infrastructure is also expected to result in further investment in 'up-country' infrastructure and in the rapid growth of both on-farm and privately-held storage facilities, the report says.

"Further development in supply chain infrastructure – whether in logistics, up-country storage or further port investment – will create more opportunities for strategic partnership for all supply chain participants, from farmers to end users," according to Mr Chong.

This new system will likely see growers being incentivised to store and treat grain on-farm for longer periods of time before delivery, allowing a reduced capital requirement for the end 'accumulator' and providing financial gain to growers with on-farm storage.

However, storing large volumes of grain on farm instead of in the bulk handling system will result in quality and safety risks being shifted to the farmer, the report warns.

"Looking forward, grain growers will need to weigh up the costs associated with storing grain on farm against delivering grain into the bulk handling system. These costs will need to be inclusive of the risk associated with quality, safety and pest management," the report says.

Prices

More competition for grain at the farm gate level will likely result in overall higher prices for grain growers, according to the report.

"Supply chain operators looking to maximise throughput will come under increasing pressure to attract grain to achieve optimal asset utilisation," Mr Chong says. "As a result, the Australian grain industry is likely to see a dramatic shift in the pricing of grain."

Media release
August 26, 2014

Other findings

Other key findings in the report include:

- The expected end of centralised marketplaces for grain buying and selling – with the decentralisation of bulk handling systems to dramatically change the way the domestic grains markets operate, particularly in export-oriented states such as WA.

- Opportunity for specialised product development to service niche markets due to the flexibility in storage and segregation in a fragmented supply chain and

- An increased importance in cooperative grower-to-grower partnerships to increase market power, provide economies of scale, reduce operational risk and boost overall profitability for farmers.

Rabobank's report ***Australian Grains – Infrastructure Growing Pains*** is the third in a series of keynote research report being released in 2014 to assist clients address competitive challenges and opportunities in their agricultural businesses.

<ends>

Media contacts:

Denise Shaw
Media Relations
Rabobank Australia & New Zealand
Phone: 02 8115 2744 or 0439 603 525
Email: denise.shaw@rabobank.com

Jess Martin
Media Relations
Rabobank Australia & New Zealand
Phone: 07 3115 1832 or 0418 216 103
Email: jess.martin@rabobank.com