HD **Windows of opportunity for Australian agribusiness investment**

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The recently published Innovation & Competitiveness Agenda sets out the Australian federal government's plans to make food and agribusiness a priority sector in Australia. The Agenda sends a positive message to foreign investors: it stresses the government's commitment to developing the agribusiness sector and making it easier for significant investments to proceed. This is important for Australia to attract the **billions** of dollars worth of capital needed to upgrade ageing silos, repair fragile rail networks and relieve rail and port bottlenecks. All of these reduce returns on agricultural production and inhibit industry expansion to meet the projected growth in Asian food demand.

In response to the release of the Agenda, Norton Rose Fulbright convened an industry roundtable in Melbourne. The meeting highlighted where many potential windows of opportunity within Australian agribusiness lie and indicated the following insights:

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Investors will not forget about ADM's failed takeover of Graincorp Ltd any time soon and there are still uncertainties about current Foreign Investment Review **Board** requirements. At the same time, market commentators are not sensing any reduction in the level of interest in Australian agribusiness and port infrastructure. Foreign investment continues apace, as illustrated by recent reports of **Chinese** interests being close to sealing a deal to **acquire** 50 **dairy** farms in the south west part of the state of Victoria with plans to construct two processing plants to integrate with these acquisitions. While some believe that the risk in this area is overstated, clearer communication on the proposed application of the national interest test would help reduce the perceived risk for investors entering the Australian market, and would also be in line with the government's agenda to improve the speed and consistency of regulatory approvals (see Michael Wilton's article An update on Foreign Direct Investment in Australia for the latest developments in this area).

Private capital is finding new funding vehicles to address small farm undercapitalisation and intergenerational succession. Without such initiatives, the age profile of the rural sector threatens to remove a significant percentage of land from agricultural production within the next five to ten years. Investment funds instead hold out the prospect of continuing – and possibly even more efficient – production than is currently the case in Australia's subsidy-free farming sector. Norton Rose Fulbright is seeing (and advising on) the establishment of a number of new funds with capital sourced predominantly from offshore investors, typically from Europe and North America.

Further investment in infrastructure for the agricultural sector is sorely needed. Clients in the Australian food and agribusiness sectors have stated very clearly that the best thing the government can do for the industry will be to fix rail and port infrastructure impediments and access to markets.

Reversing the effect of long term underinvestment in rail is firmly in the camp of government, as is the kind of new water storage and irrigation investment flagged in an agricultural competitiveness government green paper released on October 20, 2015. A record A$10.8 **billion** investment in Victoria's freight network has been proposed, with particular attention to regional corridors to port from productive regions such as Mildura and Horsham. There is pressure on governments to move heavy traffic off roads, which will continue to incentivise rail rationalisation. This could deliver the kind of cost efficiencies that are enjoyed in Canada, where there is a reliable long distance rail service as well as a variety of elevation services providers at port. In Australia, by contrast, different gauge rail tracks still operate in the adjacent states of Victoria and New South Wales.

Prospective privatisation of stateowned port assets in the next 12 to 18 months could provide the revenue to enable state governments to finally address the 'big ticket' costs involved in an overhaul of rail infrastructure, particularly if there is co-funding from federal government.

It would be a significant win for Australia's agriculture sector if the public and private sectors align in a window of opportunity to address the challenges of a long legacy of poor infrastructure investment.

Take as a case study the Quattro port terminal joint venture at Port Kembla, which leverages private investment together with government-led rail network improvements to deliver choice, competition and better use of port land and facilities that will benefit exporters. In isolation from each other, neither government initiatives nor the private sector would unlock the same value.

Another approach the Australian government could explore is a co-investment model, based on the US government's recent Rural Infrastructure Opportunity Fund. Under this model, the US Federal Government has established and seedfunded a rural infrastructure fund that is using sophisticated infrastructure advisors to match rural infrastructure opportunities with suitable investors, with public money deployed alongside private investment where appropriate. The Australian government could consider exploring a similar model with co-investment used to improve the return profile where required to stimulate the required investment.

Higher up the supply chain other investors are looking at country storage sites and their connectivity with transport links. Here there are opportunities for traders wishing to ensure they are able to **acquire** the season's best commodity and sell it at their preferred time. Furthermore, such facilities offer a means to manage and control the pipeline to port which currently exacts a higher cost per tonne in Australia than in almost any other country worldwide.

Climactic factors are never far from mind in Australia, but even the memory of double drought years, such as those that occurred in 2007 and 2008, does not seem to cool the current enthusiasm to **acquire** grain storage and handling assets. This may reflect the nature of the acquirers, multinational traders looking to diversify their supply sources and investors looking for long-term security of supply, and so accepting of some cyclical climatic risk.

On-farm silos continue to be built apace, as a means for growers to protect their crop and choose when to deliver it. For growers who are not served well by rail, or who are penalised by seasonal surges in the cost of trucking services, on-farm storage is the preferred choice. While this practice may not be optimal supplychain practice, large growers feel that they have no choice but to make these investments. Smaller growers are even forming cooperatives to build silos where they cannot finance construction themselves.

Ports in private operation are likely to benefit from having more than one grain elevation operator in their precincts, as this tends to drive high customer service standards and a robust revenue stream to the port owner. A spin off from the forthcoming wave of port sales could be to challenge the existing yield from land and facilities at ports as well as to promote changes designed to optimise it. If strategic investment value lies in controlling an entire supply chain from region to port, this could value certain advantageously located land and infrastructure at a premium.

Competition issues beset supply chain and port operations for bulk grain in Australia.

In reality the export grain season comes with a seasonal high demand peak of between two and four months, which is counter to the Northern hemisphere so that multinational traders' strategy is focussed on improved assurance that their ships will be loaded in that peak period.

It now seems clear that neither the current practice of auctioning vessel loading slots nor the much touted long-term 'take or pay' agreements between traders and port facilities hold out any real hope of reducing Australian port elevation costs in line with global benchmarks. Looking to the hard commodities sector for a comparison, the Hunter Valley Coal Chain introduced a form of cooperative management of the rail supply chain which revolutionised coal throughput at port. However such a model would be difficult to transfer to the soft commodities sector as it is likely to trigger concerns about preserving traders' commercial confidentiality. That said, some form of collective activity, perhaps with an intermediated operator (along the lines of the Quattro JV), could be the future of infrastructure ownership for the sector.

In the next issue of Cultivate we will analyse the effect of the Competition and Consumer (Industry Code-Port Terminal Access (Bulk Wheat)) Regulation 2014 (Code of Conduct) in force from September, 30 2014. The dynamics set up by the Code of Conduct are starkly different in the various regions of Australia, but the code has set the context Australiawide for what is likely to be a next wave of strategic joint ventures and acquisitions in the supply chain to port.

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