

- Columnists
- Markets
- Hindsight
- Weather
- Cartoon
- Buyer's Dir.
- Hotlinks
- Archives
- Classifieds
- Advertise
- Web Traffic
- Subscribe
- Contact Us
- Home

Asian Growth Encourages Aussie Focus On North's Infrastructure

By Colleen Schreiber

HOUSTON — A group of Australian Commonwealth government representatives were recently traveling throughout the U.S. to promote their goal of furthering development in Northern Australia by improving and adding to existing infrastructure.

The first leg of their trip was hosted by their colleagues at the Houston office of the Australian Trade and Investment Commission.

The group was made up of Laurie Walker, CEO of Northern Australian Infrastructure Facility; Christopher Rees, assistant general manager of the Australian Trade and Investment Commission; and Dr. Chris Chilcott, research and site leader for the Northern Territory with the Commonwealth Scientific and Industrial Research Organization. They were primarily meeting with investor groups of all types, including corporates, financiers and agriculture entrepreneurs.

North Australia encompasses the portion of the country above the Tropic of Capricorn, including all of the Northern Territory and parts of Western Australia and Queensland, about 40 percent of Australia's land mass and some 1.2 million square miles. Despite its size, Northern Australia only accounts for about 5.5 percent of the country's population and 11.7 percent of the nation's GDP.

As was explained, the potential to improve and grow this part of Australia's economy is enormous, as it is home to a thriving and diverse export market in minerals, energy and agriculture. Minerals are Australia's leading export market. The country leads the world in iron ore and coal exports, and they're soon to be number one in natural gas.

Australian agriculture is critically important as well there. Twelve million of the country's 25 million cattle are in North Australia, and about 90 percent of the country's live cattle exports depart from one of the northern ports. There are also some 3000 sugar farms in the north, making this region the world's fifth largest beef and sugar

exporter. Combined income from these two businesses alone reportedly exceeds \$3 billion each year.

Additionally, the north is home to more than 90 percent of Australia's mango and banana production. Melons, pumpkins, red grapefruit, maize, chia, chickpeas, beans, cotton, sunflowers, millet, sorghum and sandalwood are also grown in the north.

And yet the region's growth potential is largely untapped because of poor infrastructure. Further developing Northern Australia is critical to the Australian economy because, as Laurie Walker explained, the north is the "gateway" to Asia, home to the fastest-growing economies in the world.

She cited figures well known by Americans. Specifically, by 2030 two thirds of the world's middle class and 50 percent of the world's GDP will be in the Asia Pacific region. Some economists even suggest that China's economy is already larger than that of the United States. Additionally, the ASEAN countries collectively, led by Indonesia, are already similar in size to India. It was also pointed out that by 2050, half of global demand for agriculture products will come from China.

"We're determined to develop North Australia at this time, when one of the most extraordinary growths in wealth is taking place on our doorstep," Chris Rees said. "It's a timing issue; something to be grasped now because the window won't stay open forever."

Recognizing the potential, in July 2016 the Australian government developed the Northern Australian Infrastructure Facility, currently the largest Australian government loan facility of its type. Walker is in charge of facilitating the use of a loan facility of \$5 billion Australian, or about \$4 billion U.S. to encourage development of infrastructure in the north.

She stressed that it is a loan, not a grant, but one that is "incredibly flexible," with the longest term being 30 years. One of the mandated objectives is private sector investment, which in Aussie terms is called "crowding in". She noted that the infrastructure development encompasses all aspects, from ports, roads and airports to water development, telecommunication and power generation.

"The infrastructure facility can play in all those spaces, and we need to enhance infrastructure in all those areas," said Walker.

Rees acknowledged that incrementally growing existing operations will no longer suffice. Such infrastructure development is essential if Australia is going to reach its growth objectives.

“We need to have transformational change, and the government has recognized that, and these policies symbolize that.”

Walker agreed, saying the development of such a facility to facilitate loans indicates the commitment of the Commonwealth government. However, she pointed out that the endeavor is also being developed in partnership with the Northern Territory, Western Australia and Queensland governments, because the projects are in their jurisdiction. Thus, investment is across state and Commonwealth boundaries. Already 119 projects are under review, and 60 of those are what Walker described as “active.”

The group provided other statistics to shore up their case as to why there is no one better than North Australia to service the phenomenal growth in the Asian markets. For example, North Australia, with more than 6200 miles of coastline, accounts for more than half the nation’s sea exports.

It was also pointed out that 60 percent of Australia’s rainfall falls on the 40 percent of the land mass north of the Tropic of Capricorn. Yet only about two percent of the water is used, indicating again the potential for growth. If that water were efficiently used, experts believe Australia’s irrigated land could increase by 20 percent to as much as 50 percent. To that end, already \$174 million (AU) has been committed to water project infrastructure development.

The water statistics concur with what other researchers have found with respect to soils in the north. Some of the first soil maps covering all of Northern Australia have found soils that are suitable for more than 70 different crops.

Northern Australia comprises three main climatic zones, the tropics, grasslands and desert, known universally as the Outback. As Dr. Chris Chilcott explained, Northern Australia has a wet and dry season. During the wet season from October through April, 39 inches is the norm. However, there are the extremes. For example, Chilcott pointed out that during the past summer, November through April, Darwin in the Northern Territory received about 98 inches. Little rain falls during the dry season from May through November.

Chilcott is a rangeland ecologist with more than 20 years’ experience in research-related projects dealing with soil and water

and the livestock industries in Queensland and Western Australia. He said a great deal of Northern Australia's land is pastoral grazing land, with cattle being the primary livestock enterprise.

Operators must "muster" and do all animal handling and shipping during the dry season, as many roads are largely impassable during the wet season. It was also noted that producers have to travel great distances, on average 600-something miles, to get their cattle to market and as much as 1500 miles to get them to slaughter on the east coast.

That substantially cuts into their bottom line. Consequently, already on the books is a \$100 million (AU) project in partnership with the beef industry to upgrade existing roads and add more all-weather roads throughout the north.

The opportunities in the cattle industry in the north are being recognized not only by the traditional pastoralists but by those who have made their fortunes elsewhere, namely the natural resource industry. As Rees noted, Gina Rinehart, Australia's richest person, "has gone into cattle in a huge way."

Her endeavors have been covered extensively in Australian Broadcast Corporation's rural news online report. Last year Rinehart and her Chinese partner, Shanghai CRED, spent \$386 million (AU) to buy the Kidman cattle empire. Rinehart already owned eight cattle stations in the northern part of Western Australia, the Northern Territory and New South Wales. This latest transaction reportedly brings her own cattle herd to just over 102,500 head.

"She's been investing heavily in not only cattle properties but also technology to really get extra productivity," said Rees. "She's really leading the way."

Additionally, Andrew Forrest, founder of Australia's third largest iron ore export company, has made a major commitment to Northern Australia, not only in cattle production but also processing and distribution. Forrest reportedly owns five West Australian cattle stations where 40,000 cattle graze.

The two magnates have different ideas about the best way for Australia to capitalize and grow its cattle markets. According to ABC's rural news report, Rinehart has signed a strategic cooperation agreement with Zhejiang Aozhou Cattle Industry Co. Ltd., a Chinese consortium, to create a joint-venture beef supply chain.

The deal calls for the shipment of 150,000 and eventually up to 300,000 live cattle to Jintang Island, south of Shanghai, where a feedlot and processing facility is to be built. Another report had Rinehart shipping as many as 800,000 live cattle a year from Northern Australia to China for slaughter.

In a recent ABC Rural online report, Forrest called that idea a disaster for Australia. He said that “Australia’s agricultural resources should not be treated like a mine to be stripped of bulk raw materials by foreign companies to then process offshore for their own profit.”

Such a venture, he said, would minimize Australia’s economic benefit. He contended that the better option would be to develop economic opportunities by harnessing local downstream processing and value-added opportunities at home.

“The Australian beef industry is at a major turning point, but our children and grandchildren will curse us if we decide now to focus on just breeding and growing cattle and then shipping them off, and seeing 95 percent of the value-adding benefits disappear,” Forrest said of Rinehart’s live export proposal.

Whether the focus is on live exports or beef exports, there is likely room for growth in both. Chilcott noted that there is continued expansion of the cattle feeding industry in Queensland, where the crops are more readily available. He predicted that as the northern region of the country works out its water and cropping systems and roads are improved, the feedlot industry may well grow in other more remote parts of the north as well.

“Because of the binary system of wet and dry, we need to be able to store the water in a way that allows us to grow the crops, and then the protein created can go into feedlotting,” said Chilcott. “Our challenge at the moment is to try and find the groundwater resources to pump or find ways to store surface water during the dry season to crop and then grow enough crops to support the infrastructure — cotton gins, for example, which would then encourage feedlotting.”

As for the kinds of cattle, Chilcott acknowledged that hardy animals that can deal with the climate and the ticks are needed. However, he said there is more crossbreeding of “softer” animals to the traditional eared cattle, which theoretically should grow out better in a feedlot and produce a higher quality beef product.

He, too, briefly mentioned the live animal export market, noting that about 700,000 head of animals are exported out of Darwin,

northwest Western Australia and Queensland to Indonesian feedlots. With improved port infrastructure and roads, that too may well grow.

Though the northern part of Australia is best suited for cattle, the lamb industry and less so the wool industry is adapting to new opportunities. Chilcott said that as in the U.S., more of the meat type sheep breeds from South Africa, the Dorper, in particular, are being introduced into Australia to be crossed with the Merino.

“The price of lamb is outrageous right now,” Chilcott said, “\$60 to \$70 AU per kilo retail, so there’s a real drive back into sheep at the moment because of price.”

Wild dogs and parasites remain a challenge, particularly in the more northern parts of the country. Still, he expects the growth in the lamb industry to continue.

It should also be noted that Australia concluded free trade agreements with China, Japan and Korea in 2013 and 2014, a clear indication again that there are growing opportunities for the live animal trade as well as for beef exports. Additionally, the recent troubles in the Brazilian government and their beef industry, Australia stands to benefit as they are approved to send chilled product, primarily grass finished, to China and other Asian markets.

It’s not just beef that benefitted from these free trade agreements. Tariffs on wheat and wheat gluten are being reduced and market access is being eased. Tariffs on mangoes, macadamia nuts, prawns and many other horticultural and seafood products of importance to Northern Australia are being progressively eliminated.

The Australian team also discussed the challenge but also the opportunity that North Australia faces with its limited population. It was reiterated several times that only about a million people live north of the Tropic of Capricorn.

Rees added that Australia was a country colonized from the bottom up.

“Europeans settled in places like Sydney and Melbourne in the south, and that’s where our population centers are today. I’m sure if we were inventing Australia today, we would start in the north.”

He also pointed out that there are 24 million people living in Australia today.

“We make enough food for 60 million people. We should be making enough food for 120 million people,” said Rees.

Again, Rees said, the goal is to enrich the quality of life through improved telecommunications, roads, medicine and the like, which should improve employment opportunities, thereby attracting more people to the north.

“We’ll have to face that challenge with ingenuity,” he admitted.

Walker agreed, adding that the goal in terms of making North Australia an appealing place to live is both an economic and a social one. However, their first priority is to advance the well-being of the indigenous populations in North Australia. As Rees pointed out, Northern Australia is home to 30 percent of the country’s indigenous population.

The indigenous peoples are critical to the success of the project, because about seven percent of the northern pastoral leases are indigenous owned or controlled. One of the challenges, however, as was pointed out in one of the many reports offered by the group, is that indigenous Australians at present cannot use their exclusive native title to attract capital necessary for economic development. That’s because banks do not lend against native title for the simple fact that native title is not transferable in the event of a default.

The materials also pointed out that much of the north is Crown land held under state and territory pastoral leases. These pastoral leaseholders are also in a catch-22 in that they generally are unable to use their land for activities other than grazing. Thus pastoralists wanting to broaden economic activity often need approval from various government bodies.

Both of these issues are expected to change, as the Commonwealth Government is supportive of pastoral lease reform. Already work has begun to initiate better dialog between potential investors and the traditional leaseholders and owners. In fact, as Walker pointed out, one criterion is that each project the organization partners on must have an indigenous engagement strategy.

“Who knows better the characteristics of the land than the people who have guarded it for 20,000 to 30,000 years?” Rees added.

Walker said that by transforming the north, the hope is that the population will not just “inch forward” but grow significantly, to four to five million by 2060.

As for the funding, she further explained that their mandate is to put as little of the \$5 billion (AU) into each project as possible so as to leverage the other sources of capital as much as possible.

“We’re a gap financier, meaning we can only put in the minimum amount of debt or other concessions to fill a gap that other lenders or investors cannot satisfy,” she explained.

In the past, infrastructure projects in Australia have traditionally been government-procured, but this model, she said, is “proponent-led.”

Walker added that her group is not looking for investors who simply have large amounts of available capital. Rather, they’re more interested in finding the right development partners.

“We’re definitely looking to facilitate projects where we can, but the model was set up for proponents to bring projects forward, and there are no restrictions on the other 50 percent of the debt,” she pointed out. “It can be fully foreign, and we’re seeing that actually. For example, we see growing interest from Chinese lenders courting these markets. I think that’s important.”

Then there’s the U.S. As Rees pointed out, the U.S. is the single largest investor nation in Australian history. Already Americans are one of the major investors in the Northern Australia infrastructure development projects, which also includes investment in farmland.

“We’ve been a net importer of capital since 1788,” said Rees. “We definitely see that for us to reach the potential that these growth markets offer, partnering with major firms from around the world is the way we’re going to develop the north. That is what we’re excited about.”

Questions? Comments? Suggestions?

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