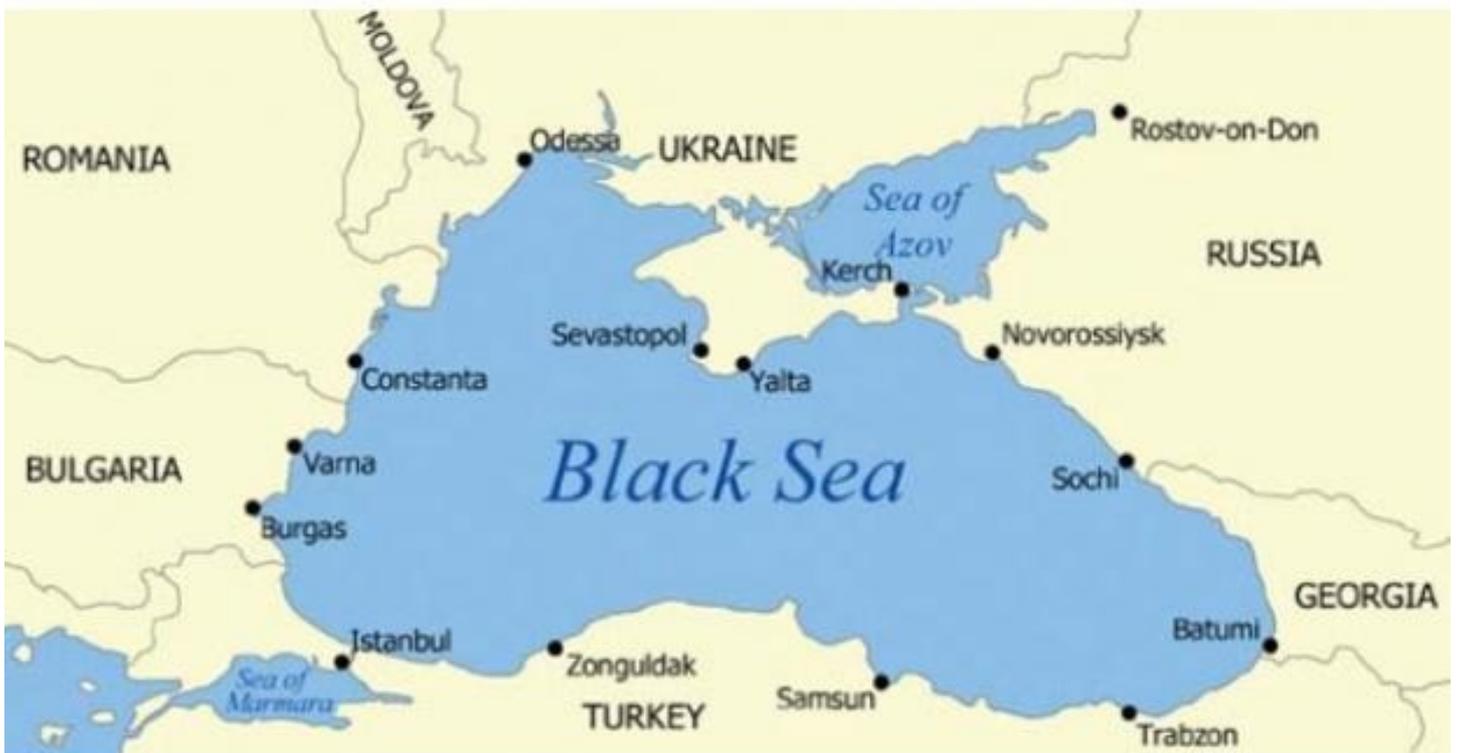


All Black for Aussie growers?

Richard Rennie • 1 year ago

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Rabobank analysts have highlighted the Black Sea region as a key threat to Australia's Asian wheat exports.

In a recent analysis of Australian competitiveness for grain exporting, Rabobank analysts have highlighted the Black Sea region as a key threat to Australia's Asian wheat exports.

The region comprises Turkey, Bulgaria, Romania and Ukraine, and despite the troubled uprising within Ukraine, prospects remain strong for the region's ability to become a serious player in the ever tightening market for global grain supplies.

Proximity to deep sea ports and the renowned deep black Chernozem soils make the Black Sea region farmland the most desirable within the region, typically valued at about US\$10,000/ha and delivering production of 72 bushels an acre (4.5 tonne/ha). Surrounding countries with similar potential offer even cheaper land opportunities at less than US\$2000/ha.

In a world where growth in grain volumes is predicted to be relatively small, and increases in land converted to grain production even smaller, the Black Sea region is the exception.

Increasing yields and plantings are expected to increase the area's production by 3.7% a year for the next five years, compared with a global increase of barely 1% a year over that time.

The growth is attributed to ongoing government and private sector investment and improving

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farming techniques.

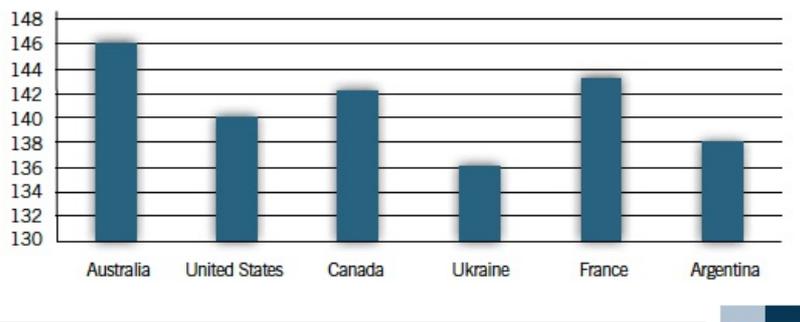
United States-based investment company Notaro, for example, has a specific Black Sea Agriculture fund and intends to increase its investment 10-fold from its US\$1 million holdings in the region today.

Rabobank predicts a combination of increased production and highly competitive cost factors will combine to have the Black Sea region displace Australia from the Middle East and Africa, forcing Australian exporters to focus even more upon Asian markets.

Rabobank's analysis of relative production costs across big grain producers makes for sobering reading for Australian growers.

In 2012 the variable farmgate cost of production in Ukraine was US\$136/tonne, compared with US\$146/t for Australia, the most expensive producer across the six compared, which also included France, the US, Canada, and Argentina – see graph.

Variable cost of wheat production at farmgate (US\$/tonne)



The freight advantage of the Black Sea countries when exporting to Australia's traditional markets in the Middle East and Africa amounts to US\$10-\$25/t in favour, on top of the lower production cost.

With a typical domestic consumption of about 60m tonnes a year the Black Sea region is estimated to be pumping an additional 20m tonnes of wheat on to the international market by 2019.

Over the coming five years exports from the region are expected to increase its market share to 58% of the Middle East-North Africa region, up from today's 47%.

Over and above this, the Black Sea region is still expected to have an additional 7.6m tonnes of wheat to export to other markets, including Asia. This represents a major threat to Australian growers who presently enjoy a market on their doorstep that accounts for 70% of their wheat exports.

Rabobank is cautioning Australian growers about the need to consider the implications such a shift in volumes to their traditional markets is likely to have.

It recommends building more strategic partnerships with users in those markets where Australia still enjoys a competitive edge in terms of freight cost, along with an emphasis on marketing the grain's high value and quality aspects.



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