Rail increasingly essential to soy

By ANDY VANCE

Key Points

- Rail shipments of beans projected to rise 55% by 2020.
- Annual rail investment gap of $1.55b projected through 2035.
- Soy industry prefers rail investment tax credit idea.

INFRASTRUCTURE discussions relative to agriculture tend to center on the nation's deteriorating locks and dams and the need for Congress to fund additional investment in the vital inland waterway system.

According to a new study commissioned by the Soy Transportation Coalition, however, trends in soybean production have made the industry more dependent on rail shipment of beans — and, as with the waterway system, more investment is needed now.

The study on agriculture and railroads, performed by TRC Consulting of Alexandria, Va., found that even regions with adequate river access still depend on the rail industry to meet customer demands. As soybean production intensifies in the western Corn Belt and as the Pacific Northwest becomes an increasingly key point of departure for Asian-bound exports, the importance of rail will likely become even more pronounced.

Currently, more than 900 million bu. of soybeans are shipped by rail. By 2020-21, that volume is expected to grow more than 55.5% to reach 1.4 billion bu.

Rail is an extremely capital-intensive mode of transportation. Unlike other mission-critical components of the agricultural infrastructure, rail is privately financed and maintained, with railways spending billions of dollars annually to augment, maintain and, in some cases, expand their networks.

Even with some notable investments in recent years, the TRC study projected a significant funding shortfall in the near future — a gap between what railways might likely invest and what the soybean industry might need to ensure continued success and competitive advantage in the global marketplace. All told, the analysis projects an annual funding gap of $1.55 billion from 2012 to 2035.

"Soybean farmers are increasingly productive. Our customers, both domestic and international, increasingly demand this production," said Pat Knouff, an Ohio soybean farmer serving as chairman of the coalition. "However, we are concerned with our transportation infrastructure's ability to connect supply and demand."

Knouff explained that a great deal of U.S. soybean production occurs more than 1,000 miles from the nation's ports, requiring a sizable volume of soybeans and products to be moved via more efficient modes of long-haul shipment.

"Given the importance of the rail industry to the profitability of the soybean industry, we are concerned when acquainted with the prospect of a future investment shortfall," Knouff said.

Looking at potential solutions to the investment shortfall, the study examined a number of financial investment incentives that might help address the funding gap. Among them was the possibility of a 25% investment tax credit, an accelerated depreciation and "bonus" depreciation of 50% and a general business tax rate reduction on corporate taxes from 35% to 25%.

Keith's analysis suggested that the 25% investment tax credit, along with accelerated depreciation, was most likely to generate the needed investment in the industry.

"One of the reasons an investment tax credit for rail infrastructure is so attractive is that the credit could be designed to benefit soybean and grain shippers, not only the rail companies," said Mike Steenhoek, executive director of the Soy Transportation Coalition. "Given how constructing a single upgraded rail facility capable of loading large unit trains of soybeans and grain can cost a processor or cooperative $20 million, we gravitate toward those proposals like the tax credit that will result in making agriculture an attractive place for rail investment."

Photo: AGP.

BEANS ON RAILS: With a great deal of soybeans produced more than 1,000 miles from the nation's ports, the soybean industry increasingly relies on rail for efficient long-haul shipment.

While the analysis acknowledges that the tax credit would likely yield an annual loss of tax revenues approaching $981 million, the resulting benefit to the economy would be a net $2.3 billion each year — up to $98 million of which would directly benefit the soybean industry in the form of lower rail rates and higher-speed handling.

Steenhoek said the tax credit and depreciation proposal would yield the greatest economic "bang for our buck" for U.S. taxpayers and investors, based on a very favorable cost/benefit analysis. A rail investment tax credit, he said, will result in an improved agricultural infrastructure and overall economy. ■

AGR buys 19.5% Ridley stake

By ANDY VANCE

WITHIN days of an announcement that Illinois-based Archer Daniels Midland (ADM) would proceed with its takeover of Australia's largest grain handler, news surfaced that a California equity firm had snatched up a 19.5% stake in Ridley Corp., Australia's largest feed company.

AGR Partners acquired the position in Ridley from Guinness Peat Group (GPG) for roughly $54 million (Australian).

The sale of the stock in Ridley was not, in and of itself, a surprise. GPG had announced earlier this year that it might entertain the notion of selling its shares in the company.

What has drawn some interest, particularly on the heels of ADM's pending acquisition of GrainCorp, is the sale of the minority position to an American entity.

Given Australia's position in the market from both a production and a geographic point of view, the country presents an interesting opportunity for U.S. investors and agribusiness concerns looking to expand their holdings in the lucrative Asia-Pacific region.

AGR, based in Visalia, Cal., said its investment strategy is acquiring "minority investments in companies in the agriculture and food value chain."

AGR would not comment on its plans for Ridley beyond its newfound 19.5% position, and its portfolio is not publically disclosed.

Ridley reported 2012 earnings of $19.3 million (Australian) on $734.7 million in revenues. Its feed division sold 1.6 million tons of livestock feed last year, more than half of which was poultry feed, according to its annual report.

In February, Ridley sold its Cheetham Salt business to CK Life Sciences for $150 million. The company also had sold its 69% stake in Minnesota-based Ridley Inc. to Fairfax Financial for $81 million in 2008 (*Feedstuffs*, Sept. 29, 2008). ■

Joint venture to run Cargill Thunder Bay grain terminal

CARGILL announced May 2 that it has signed a letter of intent to enter a joint venture agreement with Parrish & Heimbecker Ltd. (P&H) in which both companies would jointly own and operate Cargill's existing grain terminal in Thunder Bay, Ont.

Both Cargill and P&H currently operate out of the Thunder Bay terminal port. The two companies will have an equal ownership in the joint venture.

"This is about creating a business arrangement that will help build a long-term, sustainable business," said Len Penner, president of Cargill Ltd. "Both of our terminals have been underutilized in past years. With P&H as our partner, we'll make the business stronger by sharing costs and efficiencies. In addition, our combined operations and expertise will help us better serve our customers."

Under the transaction, Cargill will sell its existing assets to the new joint venture, and both parties will divert grain to the joint venture.

In the future, P&H may operate its terminal to handle commodities that the joint venture does not handle.

The parties intend to close the deal by May 31. The new name of the terminal will be determined at a later date, according to the announcement.

"We are looking ahead at the promise that this new venture with Cargill will bring for our customers," P&H president John Heimbecker said. "Creating a long-term, sustainable model is what the industry needs to remain competitive, and together, we can better adapt to those changes." ■