THE AUSTRALIAN

Nationals usurp national interest on GrainCorp sale

November 30, 2013

JOE Hockey's decision to reject US agribusiness giant Archer Daniels Midland's proposed $3.4 billion takeover of grain distributor GrainCorp has sent an unfortunate message to business and foreign investors. It suggests the Abbott government, for political reasons, is prepared to cave in to protectionist sentiment. The Treasurer admitted yesterday the "high level of concern from stakeholders and the broader community" had been a "significant consideration".

Politically, the decision is a win for Deputy Prime Minister Warren Truss and other Nationals who campaigned vigorously against the takeover on the grounds Australia should retain control over its food supply. Mr Truss had warned a takeover would force growers to pay higher charges, despite ADM's commitment to price caps on grain handling at ports and silos.

In practice, the decision is likely to create difficult times in the grain industry, depriving it of what GrainCorp chairman Don Taylor called a "compelling opportunity" to boost investment. ADM had pledged to maintain and upgrade GrainCorp's extensive silo and rail network and port infrastructure. GrainCorp will now face higher capital costs and consider asset closure as it struggles to maintain unprofitable silos. Mr Taylor, a south Queensland farmer, had told fellow growers, for good reason, "to be careful what they wish for".

That said, those against the sale had some legitimate concerns. Columnist Henry Ergas, a committed "dry" in favour of the takeover proposal, acknowledged ADM had a chequered background as a global agribusiness player. In a recent column in The Australian, he pointed out the company was at the centre of a price-fixing conspiracy over lysine, an animal feed additive, in the mid 1990s. The scandal damaged farmers and resulted in fines and convictions against three ADM executives. The company's latest quarterly report doubled the provision for penalties arising from probes by US government agencies. And Washington's free-market Cato Institute characterised ADM as a rent-seeker "drunk on tax dollars" and deriving 30 per cent to 40 per cent of its profits from taxpayers' massive ethanol subsidies. It was reasonable, Ergas argued, for farmers to worry about how ADM would manage GrainCorp.

As Mr Hockey said, ADM's proposition was one of the most significant foreign takeover proposals of an agricultural business in Australia's history, given GrainCorp's ownership of more than 280 grain storage facilities and seven of 10 grain port terminals in the eastern states. Now was "not the right time for a 100 per cent foreign acquisition of this key Australian business", he said, because "the transition towards more robust competition continues and a more competitive network is still emerging".

But that argument is weakened by the Australian Competition & Consumer Commission's approval of the proposal. In June, the ACCC said the sale would be "unlikely to result in any substantial lessening of competition in any market". ADM, the commission noted, would have had to ensure competitive access to all GrainCorp port facilities.

Mr Hockey insisted yesterday that Australia remained "open for business" because out of 131 significant foreign investment applications this was the first he had rejected. There is no rational or logical reason, however, to treat the agricultural sector differently from the mining sector, which has been developed and opened up by overseas investment since the middle of the 19th century. In a global marketplace, overseas capital is essential if Australia is to maximise its comparative advantages by producing, transporting, storing, selling and distributing tradeable commodities. Agriculture Minister Barnaby Joyce says Australia should be a larger player in a world where more food will be consumed over the next 50 years than at any time in history. Unfortunately, Mr Hockey's decision will curb the grain industry's capacity to attain the agricultural infrastructure and global market it would need to participate in that opportunity.

The Nationals' blinkered political interests have prevailed over the national interest. The decision will damage GrainCorp's prospects and those of rural Australia more than those of ADM, which will be allowed to increase its stake in GrainCorp from 19.85 per cent to 24.9 per cent. It will not be ADM but GrainCorp that will wear the odium if it is forced to close assets and lose jobs in hard-pressed country communities. If the American company opts to remain a significant stakeholder it would be in a strong position to revisit its bid in a few years, when ensuing developments in the industry might prompt the government to take a more dispassionate, rational approach. Mr Hockey hinted as much yesterday when he encouraged ADM to increase its shareholding and to "build stakeholder support for potentially greater participation in the Australian industry as it develops".

In announcing his determination, Mr Hockey underlined the government's support for foreign investment and said part of the reason for his decision was that he did not want to risk undermining public support for such investment in general. Despite entrenched protectionist prejudices in the bush, the arguments for opening up agriculture to foreign capital are not rocket science. So early in its term, the government should have explained them and acted on them.