

ADM failed to win farmers' trust

Australian agriculture needs investment but ADM never persuaded farmers they were the right people to own GrainCorp and to realise its full potential.



Angus Taylor

FIN Review
2/12/13

Some will see the rejection of Archer Daniels Midland's (ADM's) takeover bid for GrainCorp as a triumph of politics over policy. Nothing could be further from the truth.

As someone who has had a lifelong interest and involvement in agriculture and economics, I have taken great interest in this bid from the day it was announced. *Greener Pastures* – a major report I wrote for the ANZ Bank before I entered politics – shows that Australian agriculture desperately needs huge investment if we are to realise the full potential of the emerging global soft commodity boom.

Greener Pastures raises the awareness of the agriculture opportunity on our doorstep and the multi-trillion dollar requirement for new capital.

But it makes an equally important point about problems in our agricultural supply chains: Many of these supply chains are natural monopolies or oligopolies. In industries where costs of transport are high relative to the value of the product (because of perishability or bulk), ownership of supply chains by a very small number of relatively unregulated players poses many problems for producers. It also poses problems for supply chain players themselves. Establishing trust with growers is extremely difficult with a concentrated market structure and where producers have little control over their downstream service providers or customers.

In dealing with this problem, Australia has been paralysed by two ideological extremes. On the one hand, some just want to let the market rip. On the other extreme, others argue for the return to the relative "comfort" of the old statutory monopolies which have been disappearing all around the world at a rapid pace.

Of course the right answer is somewhere in the middle. We should look to New Zealand on this front. I spent many years working to put together Fonterra, the dairy behemoth owned by the New Zealand dairy farmers. The New Zealanders have been far more visionary in their thinking about these problems. The Fonterra solution was to put aside ideology and arrive at a pragmatic combination of clever regulation, farmer ownership and competition. Fonterra shows that we can have good, profitable commercial agribusinesses that remain tightly aligned to the interests of farmers.

Ultimately, ADM's bid didn't address these all important problems in the supply

chain. It is true that ADM offered to make substantial and badly needed investments in the supply chain. But it did not show that real benefits would go back to grain-growers, and harm would be avoided. ADM refused to accept enforceable and lasting conditions for access agreements in a supply chain where there was little or no competition in many regions.

Some argue that there are already satisfactory access agreements and the ACCC dealt with all competition issues. However, the current access agreement concludes in September 2014, only covers ports and does not contain fee increases in any meaningful way. Meanwhile, the ACCC's public decision was necessarily narrow, excluding consideration of whether the current access agreement was satisfactory. Nor did the ACCC seriously consider the likelihood of "vertical foreclosure" – using a strong port and up-country position to push competitors out of other parts of the supply chain.

There is an extraordinary opportunity for Australian grain and Australian agriculture more generally. We should all hope that GrainCorp and perhaps even

Agribusiness will succeed when it creates significant wealth both for shareholders and farmers.

ADM will be central to capturing that opportunity in the future. But we can learn a lesson from this long, noisy and ultimately unsuccessful bid.

Agribusiness will succeed in this country when it creates significant wealth both for shareholders and farmers. Where there is potential for conflict, it is the role of both to work closely together to ensure that benefits are shared and the payback is mutual. This means establishing deep and sustainable trust-based relationships, with clear rules of engagement and remedies for legitimate grievances. Otherwise, we continue being held up and held back by the ideological clash, each time there is a proposal for foreign investment in Australian agriculture.

Angus Taylor is the federal member for Hume.