

Focus on free trade to lift exports: AACo

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Tim Binsted

Australian Agricultural Company managing director **David Farley** has pledged to hold whichever party wins government to account on free trade agreements as his company reported a quarterly \$46.5 million after-tax loss on Friday.

Contrary to noises from both sides of government that Australia will be the food bowl to Asia, Mr Farley lambasted politicians for their inattentiveness to the sector. "We've had a massive failing in diplomacy and trade with Indonesia and horrible failure in negotiating a free trade agreement (FTA) with Korea, which is costing Australia \$3 million per week."

Last week, opposition agriculture and food security spokesman John Cobb attacked federal trade minister Craig Emerson for his failure to reach comprehensive trade deals with China and Japan. FTA talks with China began in 2005, while discussions with Japan commenced in 2007.

In his *A Strong Australia*, opposition leader Tony Abbott singled out a strong agriculture sector as one of five pillars in his vision of a "strong five pillar economy".

Mr Farley welcomed the Coalition's commitment, but said facilitation of open and secure markets would be key to building the sector.

AACo told the market on Friday that the absence of satisfactory FTAs with Korea and Japan was eating away the industry's market share. Exports to Japan – the largest importer of Australian beef – are worth \$1.6 billion a year and the current Japanese import tariff on beef is 38.5 per cent.

Mr Farley's pleas to put agriculture firmly on the agenda follow **GrainCorp** head **Alison Watkins'** criticism of inward-looking agriculture policy.

Speaking at a CEDA conference in Sydney last Thursday, Ms Watkins called on policymakers to make the politically difficult decisions and set Australia up for success.

"The challenge to all politicians is to shift their view from their immediate surroundings and near-term horizons and look at the enormous benefits that will accrue to their communities with a bigger picture approach that may be tougher to sell, but will deliver a far more compelling legacy."

The world's population is set to grow by 2.7 billion to almost 10 billion over the next 40 years, which Ms Watkins said was equivalent to the world adding 67 million people, roughly the population of France, every year.

The projected surge in global protein demand from the population boom is exactly what AACo wants to tap into, but the promising long term story is tarnished by a track record of poor cash flow and weak share price performance.

AACo shares have almost never traded above their net tangible asset (NTA) backing, and NTA per share fell 14¢ in the March quarter to \$1.90. AACo shares have fallen more than 30 per cent over the past three years and were down 1.8 per cent on Friday at \$1.08.

Adverse weather and the continuing negative impact of the live cattle export ban were key drivers of the poor result for Australia's largest beef producer. The after-tax loss was primarily due to a

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\$43.2 million non-cash mark-to-market herd revaluation, prompted by low domestic prices.

Mr Farley admitted that AACo's financial performance had been disappointing, but he was happy with how the company had dealt with extreme external pressures. "We've taken a business that's had to absorb post-farm gate supply costs pretty heavily, we've had work choices, the carbon tax and a massive disruption of trade with Indonesia."

In light of its perpetual discount to NTA and poor returns, listed rural land holder **PrimeAgis** liquidating its portfolio as it looks to de-list and return capital to shareholders.

Like **PrimeAg**, AACo's recent asset sales have been broadly in line with book value, but Mr Farley said there were no plans to follow the sell and distribute strategy. "We have committed long-term shareholders who see the long-term value," he said.