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GrainCorp a bitter twist in our love affair with agrarian socialism

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LET'S start the week with a heretical thought: Australian farmers aren't idiots. If they are concerned about the proposed acquisition of GrainCorp by Archer Daniels Midland, their fears shouldn't be dismissed as hysterical rants.

That ADM is no poster child for global agribusiness underscores the need to take farmers seriously. This company was at the centre of the lysine price-fixing conspiracy, which inflicted enormous harm on farmers worldwide and resulted in record fines and criminal convictions against three of ADM's most senior executives. More recently, it has been tangled in corruption allegations, with its latest quarterly report doubling the provision it has made for penalties arising from probes by US government agencies.

And Washington's free-market Cato Institute has characterised ADM as a rent-seeker "drunk on tax dollars" that, thanks to massive investments in ethanol, has derived 30 per cent to 40 per cent of its profits from taxpayers. As well as distracting the company from its core business, that has made it highly vulnerable to sovereign risk.

Little wonder, then, that it is willing to pay top dollar for GrainCorp, whose international reputation and trading networks would help restore ADM's standing in grain markets. But, with growers in our eastern states heavily dependent on GrainCorp, it is hardly irrational for them to worry about how ADM would manage its Australian operations.

After all, GrainCorp's fortunes are inextricably linked to those of Australian grain growers. ADM, in contrast, will be juggling a wide range of competing priorities, including maintaining the flow of payoffs to farmers in the US congressional districts on which its lobbying prowess relies. And it is far from obvious Australian growers will emerge from that competition as winners.

Yet, however acutely those dangers figure in growers' minds, they do not amount to a convincing case for knocking back ADM's bid. There is, to begin with, little reason to believe GrainCorp can remain as it is. Rightly or wrongly, many of its domestic shareholders have shown little confidence in its ability to thrive as a standalone entity, despite the significant efficiencies it has achieved since its listing in 1998.

On the contrary, the Grain Growers Association, which should have the most to gain from GrainCorp's independence, dumped its 8.5 per cent stake at a cost to its members (in forgone share appreciation and dividends) exceeding \$150 million. Nor has ADM had any difficulty in amassing 20 per cent of GrainCorp or global hedge funds in readily finding sellers for a further 35 per cent.

With financial markets voting with their feet, claims that an independent GrainCorp could develop into an Australian "national champion" seem fanciful. At the same time, growers have overstated the long-run risks ADM's acquisition poses.

The reality is that GrainCorp operates in an increasingly competitive environment, as the end of the single desk has brought far-reaching entry into every aspect of east coast grain markets. Indeed, the Productivity Commission, in its review of the Wheat Export Marketing Act, concluded competition was

sufficiently robust to warrant removing the safeguards that grant GrainCorp's rivals regulated access to its port facilities.

And even GrainCorp's network of up-country silos now faces serious competitive threats. Under the Wheat Board monopoly, deliveries in each area were once mixed into that uniquely Australian product, "Fair Average Quality" wheat. Replicating the massive concrete silos in which that mixing occurred would have been enormously costly and inefficient.

But competition has undone that one-size-fits-all approach, with the segregation of grain into many quality classes giving growers scope to profit by improving their product mix. As that happens, yesterday's soaring towers are being replaced by tarpaulin-covered bunkers, each reserved for a particular quality grade.

That dramatically reduces the investment required to bypass GrainCorp's services, be it through on-farm storage, domestic demand from flour mills or feedlots or new storage providers. Growers are therefore less exposed to GrainCorp than they once were; and, should ADM hike its charges or reduce its service standards, it can expect to face a sharp market reaction, devaluing the \$2.7 billion acquiring GrainCorp will have cost it.

Given those facts, preventing the takeover would make little sense. Nor is there an argument for imposing onerous conditions on the merged entity, as those would merely undermine its ability to compete.

But none of that can erase the sense of regret at GrainCorp's fate. For as GrainCorp vanishes, we will be the only major agricultural exporter without a serious presence in global agribusiness. And hence without a corporate entity of international scale whose future primarily depends on helping Australian farmers prosper.

That, unfortunately, is the ultimate legacy, and bitter irony, of our love affair with agrarian socialism.

Yes, Her Majesty's Treasury had instructed governor Gibbs in 1841 to tear down the grain silos he had built on Cockatoo Island and desist from trading ventures that could "introduce uncertainties into the corn trade", as such "Government undertakings are particularly liable to waste, miscalculation and mismanagement".

By the 1930s, however, those admonitions were long forgotten, with the Depression forging an alliance of farm organisations and unions in support of statutory monopolies that channelled opaque subsidies from taxpayers and efficient farmers to inefficient farmers and over-priced labour. Inward-looking and poorly managed, the intensely political bodies that controlled those monopolies could never have developed into viable players in world markets.

Those bodies are now gone. But, while there is no support for their return, dismantling them proved immensely contentious, as farmers, whose livelihoods are truly their lives, feared the leap into the unknown.

So, too, it will be for GrainCorp, with its short history but long past. The final act in the fall of the once-mighty wheat monopoly, its disappearance is a stark reminder of our earlier follies. And a warning against the interventionist habit that, time after time, has let Australian farmers down.