Australia counts cost of selling off the farm

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Securing the country's food supply is fast becoming a hot political issue, writes Ian McIlwraith.

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*They call this war a cloud over the land. But they made the weather and then they stand in the rain and say 'Sh*t, it's raining!'* - Ruby in *Cold Mountain*

PERCHED a couple of metres above mostly bumper crops in their half-a-million-dollars-when-new combine harvesters this weekend, about the only thing the nation's grain farmers will not have at their fingertips is pricing certainty.

For those who can afford the flashest new machines, they come with global positioning systems, fighter plane-style controls, computer readouts showing crop moisture levels and harvesting rates, air-conditioning and radio communications - even huge floodlights to allow harvesting after sunset.

What they cannot do is protect farmers from the storm-tossed seas of politics (local and global), weather and freewheeling markets.

In the past week, for example, the Australian Bureau of Agricultural and Resource Economics' quoted price for Australian Standard White wheat has edged back from just short of $US300 a tonne to about $US275.

There are signs that prices will push higher as global crop estimates are outstripped by expected demand. With the US and much of Europe still struggling to find the right spark-plugs for their stuttering economic engines, the hopes of Australia and the rest of the world revolve around China's demand for commodities, soft and hard.

China, though, is wrestling with soaring inflation. Not only food prices are spiralling upwards, but the rising price of cotton threatens to undermine one of its chief sources of foreign income - cheap clothing. In turn, Beijing's attempts to rein in cotton, wheat, rice and other prices by selling from stockpiles is unsettling markets.

Then again, most agricultural commodities have benefited this year, some doubling in price, after first Russia, then Ukraine, Pakistan, India and others began restricting exports due to weather slashing crop sizes. As harvesting season in Australia swings into gear, the pricing gyrations are worrying Australia's growers. Wheat farmers, many of whom already have tonnes of unsold grain in storage from their last crop, are already twitchy because the drought-breaking rains that have boosted crop yields in many areas are still coming, and threatening to lower this year's crop values.

"This year we're going to see a significant decrease in high protein wheat in NSW and Queensland because of the weather," says an industry analyst, Lloyd George, from AgIntel.

George says that while early rain was good for rapid growth, the later rains reduce the protein content, which means less wheat is of the right quality for milling - one of the reasons why the grains marketer AWB warned this week that there would be a lot more wheat destined for feeding livestock this year.

Australia's 2009 wheat crop suffered not from lack of quality or demand but that the cost of producing and transporting it was above the market price, which had been driven down by a preparedness of cash-starved farmers, in economies still struggling in the wake of the global financial crisis, to sell at almost any price.

Increasing volatility in world markets just adds another layer of complexity for farmers trying to sell their crops - making some yearn for the return of the old crop export monopolies of entities like the AWB when it was the Australian Wheat Board. Those boards would undertake to buy almost all the output of farmers, and sell it for them on world markets. That meant growers were removed from some financing risks, and having to organise trucks, trains and silos for storage. They also received the benefits of market intelligence on things like what types of grains to sow.

While only 20 per cent of global wheat production is exported, Australia has 10 per cent of that market and is about the fifth largest exporter sending more than $5 billion a year of grain and flour offshore. Not only was the AWB's fiefdom, known as the single desk, abolished in mid 2008 by Canberra, but as of this week the company's days are numbered thanks to an agreed takeover by the Canadian fertiliser combine Agrium.

A Riverina farmer, Jock Munro, an outspoken opponent of the changes at AWB who even turned up to last year's annual meeting in Melbourne wearing his clan kilt, rejects arguments that competition and pricing transparency mean he is better off.

"Under the old arrangement, we had an estimated pool return … the whole crop was virtually accounted for," said Munro from his Rankins Springs property while repairing machinery during a rain-induced break in harvesting. "Now, it means that I am under a lot of stress, because I am worried that the market [price] will collapse."

Munro said he could sell forward all, or part, of his crop - but that only added to the level of anxiety because if the weather turned against him then he would come up short on the amount of wheat he was contracted to deliver - meaning that he would have to dig into his pocket to either make up the difference or organise to buy wheat elsewhere to make up the shortfall.

In October the Productivity Commission pronounced the deregulation of the wheat market as working so well that Wheat Exports Australia, which oversees the exporters of bulk wheat, should be abolished next September. In spite of the fact that WEA releases no data from the 25 exporters it has approved, nor are the licensing application or surrender processes discussed, the commission argues that the market is now more transparent in terms of pricing.

There are now 25 registered exporters with WEA being wound up next year. The AWB board's decision to chase the highest dollar return for shareholders was understandable to most, although clearly not to many growers who once had veto power over its actions. Some would have preferred AWB's earlier plan to merge with Graincorp to produce a "national champion" with strength in wheat and barley, and rural services.

Competition policy has, however, long supported free-market outcomes and there has been no attempt by governments to intervene in the acquisitions of AWB or other groups in the agricultural and food chains on "national interest" grounds. Canberra's acquiescence is, however, an interesting contrast to the rationale of Canadian industry minister Tony Clement's rejection of the $US40 billion bid from BHP Billiton bid to buy the Saskatchewan-based Potash Corp. BHP had identified potash, used in crop fertilisers, as a key market for the future.

Clement said the issue was one of net benefit to Canada, which most assumed meant fears of lost votes for the government if income from taxing potash production fell and BHP opted not to create jobs by developing its own deposit of the mineral.

There was a suggestion, though, that a strategic advantage to remaining in control of its exports of potash was also factored into the rejection: "BHP did not demonstrate to my satisfaction that their plans to market potash would enhance Canada's already prosperous position to compete internationally," said Clement last Sunday.

In just 12 months Agrium has moved on AWB, fellow Canadian group Viterra has spent $1.6 billion buying barley group ABB Grain, CSR's sugar business has been auctioned off to the Singaporean company Wilmar for $1.75 billion, and the SunRice group is about to be swallowed by Spain's Ebro for more than $300 million. Service companies, like Elders and Nufarm, are struggling to compete against mostly foreign-owned rivals.

Much of the dairying industry, from farm gate to supermarket shelves, was carved up by Japan, Europe and New Zealand over the previous decade. It all suggests that other countries are far more aware than Australia that food production, and the companies that support it, will become more valuable this century and beyond - especially in a world where population pressure and environmental degradation issues will make them more scarce.

"Food security" - a phrase rarely heard half a decade ago - is becoming a public issue. Politicians are scrambling to formulate policies, suggesting that their polling and talkback radio are reflecting public concerns.

Gingered by the Greens senator, Christine Milne, in the election campaign, the Labor minority government promised a National Food Plan "from paddock to plate", formally committing to it in the contract to secure government that the Prime Minister, Julia Gillard, signed with the independent MPs Rob Oakeshott and Tony Windsor.

The Assistant Treasurer, Bill Shorten, waded into the fray this week with heavy hints that he is about to order an audit to test anecdotal evidence that foreign investors are literally buying up the farms.

In fact, the government had quietly commissioned Treasury boffins "a while ago" to advise on "the best way to proceed with a review of foreign-owned farmland", according to one insider.

Australia's woefully opaque Foreign Investment Review Board, a subset of Treasury, has no idea who owns what because a farm acquisition has to cost an incredible $230 million before it blips on the radar. What that really means is that there is no policy on farm ownership. That figure is the bar set for notifiable corporate takeovers.

"The government determines what is 'contrary to the national interest' by having regard to community concerns. Reflecting community concerns, specific restrictions on foreign investment are in force in more sensitive sectors such as residential real estate, banking, telecommunications, shipping, civil aviation, airports and the media," says the guide on FIRB's website.

The inclusion of residential real estate there reflects the fact that FIRB did not know the answers earlier this year either when a near-xenophobic public outcry sprang up over reports that a driving force behind house prices moving beyond the reach of many was that they were being snapped up by wealthy and eager Asian investors.

As it turned out, after months of work, no evidence has emerged of systemic rorting. Many of the "foreign" buyers were citizens, just of non-Anglo ethnic origins.

Not that the community reaction was unusual. Similar defensiveness has emerged in the US, Europe and elsewhere in the wake of the financial crisis. In spite of warnings from supporters of borderless commerce not to erect trade walls, some politicians in those countries are actively pursuing policies that walk and quack like protectionist ducks.

There is a growing perception that Australia may now be reaping what successive governments sowed when trying to raise the country's standing in world forums through behaving as a good global citizen. Having signed up to every free trade agreement going, disbanded commodity marketing boards, dropped tariffs and quotas on imports, and thrown the door wide to almost every type of foreign investment it is hard to stem the tide.

As a Chinese delegation once asked the boss of a (no longer) large Australian clothing manufacturer after he proudly recounted the nation's tariff-abandoning behaviour: "What did you get in return?".

Shorten's demand of the Treasury department that it look at whether an audit of farm ownership was needed, and the so far ill-defined food plan, suggest that the government wants to short-circuit a re-run of the home-ownership hysteria.

In recent days, the independent senator Nick Xenophon has signalled his plan to introduce a private member's bill designed to bring foreign investment rules here into line with NZ, where foreign acquisitions of "sensitive land" in parcels larger than 5 hectares need government consent.

That sort of proposal might even get support from the Coalition. Small surprise, then, that Shorten is understood to have invited Xenophon to his office midweek to discuss the issue with Treasury officials specially summoned for the occasion.

Xenophon will not discuss the meeting, but says that he believes Shorten is "taking concerns seriously" - a compliment the senator does not extend to FIRB.

His fellow senator Joe Ludwig took over the agriculture ministry for Labor in the new government and is head chef for the food plan - although he is weeks from even choosing the ingredients, let alone serving it up.

Curiously, one of the parties nominated early on by the government to "provide input" was retailer Woolworths which, while it has a commanding presence as a buyer of locally grown meat, fruit and vegetables, is also one of the reasons why Australia is importing increasing amounts of processed food - like the other supermarket chains, it is expanding its range of high profit margin, "own brand" products by sourcing them as cheaply as possible from suppliers around the world.

That kind of behaviour is at the nub of protectionist arguments - how long, they say, before we cannot produce sufficient food because local producers become unviable or their output is directed to the benefit of other nations by companies whose only loyalty is shareholders?