Ready to buy

By DAVID LEYONHJELM

Futuris, the parent company of Elders, is selling things. It is looking more and more likely that it will buy something.

The sale of its 43% share in Australian Agricultural Company will be finalised by the end of June. Plantation land is being sold, and the company says its car parts manufacturer, Futuris Automotive, will go in the financial year commencing July.

Previous divestments, about which I wrote this time last year, include the property division, a china manufacturer, a trustee services company and an internet service provider.

Many of the company's past investments were motivated by a quest for diversity, to reduce the impact of seasonal fluctuations inherent to the agricultural sector. What we are now hearing is a firm commitment to the rural economy, with no intention of reducing exposure to seasonal variations.

An agriculture-related acquisition is also on the cards because of the changed landscape in the wheat export market. Futuris has long aspired to participate in the bulk export market and vigorously criticised the monopoly held by its archrival AWB, Landmark's parent company. With the single desk finally about to end, its opportunity has arrived.

However, it is pretty obvious that Elders' capacity for grain accumulation and export is nowhere near sufficient to enable it to become a serious player. Some major bulking-up is required.

The changing landscape is occupying other minds too. In recent months two major grain companies, ABB Grain and Graincorp, have abolished their protected status and can now raise capital, merge, launch takeovers and, within limits, be taken over just like any other public company.

ABB abandoned special status for grower shares last July, although there is still a maximum allowable shareholding of 15% and three directors must be growers.

Graincorp shareholders were more courageous, voting in February to abandon the Foundation Share that gave the Grain Growers Association control. The company is now fully grown up.

ABB and Graincorp have similarities to AWB before it acquired Landmark. In particular their relationships with grain growers lack the multi-level diversity that, conventional wisdom tells us, guarantees a supply of wheat at competitive prices.

Both have attempted to address that by offering services that bring them into contact with growers on a more frequent basis. Graincorp has its merchandise division, AgPlus, and now also a finance division. ABB has a rural services division selling chemicals, fertiliser, financial services and insurance, and has diversified into exporting wool.

However, AgPlus has struggled to find its way (and continues to lose money) while ABB's rural services division is very new and quite small. Neither comes remotely close to Landmark.

On the other hand, both have developed domestic and international markets for grain including wheat, despite exports being restricted to containers due to AWB's monopoly.

ABB has an especially strong position in New Zealand and is even involved in international wheat trading via an interest in Ukraine.

Graincorp has markets in Asia and the Middle East plus its Australian subsidiary Allied Mills (owned in a joint venture with Cargill), a major flour miller.

That gives it something in common with Futuris, whose shareholder, the Salim Group, is the world's largest flour miller and one of Elders' major wheat customers. Interestingly, the Salim Group also has a joint venture with CBH Group, the WA grain cooperative that remains a protected species.

Unlike Elders, both ABB and Graincorp have substantial grain handling capabilities.

Graincorp has a large eastern states storage and port network while ABB has facilities concentrated in South Australia. ABB is also a partner with Sumitomo in Australian Bulk Alliance, a grain handling and supply chain service in the eastern states that operates the Port of Melbourne terminal in conjunction with AWB.

Both companies suffered in the drought. Graincorp lost $19.8 million last year while ABB made just $7.3 million net. Similar results are predicted for this year and both are keen to diversify their sources of revenue within agriculture.

Graincorp faces an additional problem in that the NSW rail freight operator has announced it will no longer transport wheat. Graincorp is considering going into the rail transport business itself but will obviously not make money if its trains are only used to move the wheat harvest once a year.

On the face of it, some would say Futuris and one or other of the grain companies need each other. They may be right, although imitating AWB is not the only way to compete and Landmark's use of its grower franchise for wheat buying is still to be seen.

But, just like Woolworths began retailing petrol because Coles was doing it, Futuris will not want to give its major competitor any advantage in the wheat market. And with the proceeds of the assets it is selling, it will soon be ready to buy something.

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