

Australian government blocks US takeover of key agribusiness

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Treasurer Joe Hockey announced yesterday he was blocking, on “national interest” grounds, an attempted takeover of Australia’s largest agribusiness, GrainCorp, by US giant Archer Daniels Midland (ADM). The decision, which was denounced by big business in Australia and finance capital in the US, highlights the sharp divisions wracking the unstable Liberal-National coalition government of Prime Minister Tony Abbott.

The coalition’s rural-based junior partner, the National Party, representing farming and rival agribusiness interests, threatened a revolt within the government if the sell-off was allowed to proceed. Abbott won a federal election less than three months ago, yet his government is in disarray amid continued diplomatic crises with Indonesia and China, and domestic conflict with state governments over the gutting of school funding.

ADM’s takeover bid was widely regarded as the first litmus test for the Abbott government’s pro-business credentials, after the new prime minister repeatedly declared Australia “open for business.”

GrainCorp is the only publicly traded grain merchant in Australia. Its 280 wheat storage sites, and control of seven of the ten ports that ship grain from the east coast of the country, means the company handles 75 percent of annual grain production and 90 percent of exports from eastern Australia. ADM, an Illinois-based S&P 500 listed company with revenues of \$89 billion last year, already has a 20 percent stake in GrainCorp but wanted to move to 100 percent ownership with a \$3.4 billion takeover. The company was believed to be targeting the Australian market as a way of boosting its presence in Asian markets, especially China, which is a major purchaser of Australian wheat exports.

The National Party mounted a campaign from within

the government to block the takeover. ADM offered a three-year cap on charges for grain handling and storage at GrainCorp’s network of silos and ports, but farmers in eastern Australia feared the company would use its virtual monopoly position to hike prices after that, driving less efficient growers into bankruptcy. National Party leader, Deputy Prime Minister Warren Truss and the National’s deputy leader, Agriculture Minister Barnaby Joyce, publicly campaigned against the sell-off, fearing the party’s standing in economically hard-hit rural communities would plummet. They were joined by sections of the Liberal Party, including Senator Bill Heffernan.

The GrainCorp-ADM decision underscores Abbott’s political dependence on these forces. He became Liberal Party leader in December 2009, after defeating Malcolm Turnbull in a caucus ballot by just one vote. Turnbull, a former merchant banker, was backed by the most strident “free market” advocates within the Liberal Party.

Treasurer Hockey, who had the final say on the takeover bid, yesterday declared there had been “a high level of concern from stakeholders and the broader community.” Allowing the sale “could risk undermining public support for the foreign investment regime and ongoing foreign investment more generally.” He suggested ADM would be permitted to increase its stake in GrainCorp to 25 percent, and could make another takeover bid in the future. Abbott endorsed Hockey’s announcement, declaring: “The treasurer has been the guardian of our national interest today, as always.”

Members of the government have spoken out against the decision. Liberal backbencher Rick Wilson told the *West Australian* he was “disappointed.” WA Liberal Senator Dean Smith said: “Poor old [trade minister]

Andrew Robb—he’s out there in Asia saying we’re open for business. Well, we’re sort of open for business.”

Corporate lobby groups accused the government of endangering the continued influx of foreign investment, on which Australian capitalism is heavily dependent. Jennifer Westacott, chief executive of the Business Council of Australia, representing the country’s largest 100 corporations, said the blocked sale “risks undermining the federal government’s statement that Australia is open for business.”

The Murdoch and financial press were scathing. Writing in today’s *Australian*, long-time pro-market advocate Judith Sloan summarily dismissed Hockey’s arguments as “simply pathetic.” After dismissing his reference to the concerns of stakeholders and the broader community as “simply code for the Treasurer’s inability to stand the heat,” Sloan witheringly declared: “This was your big test, Joe, and you failed.”

Equally critical were those sections of the American media reporting on the ADM takeover bid. The *Wall Street Journal Online* reported that Hockey made a “surprise decision” that “pokes holes in the freshly elected government’s commitment to welcome foreign investment.” It added: “[F]oreign investors will surely keep a closer eye on the next few deals to launch Down Under.”

ADM’s unsuccessful bid marks the first time that a US company has been barred in Australia on “national interest” grounds since the current foreign investment rules were enacted in 1974. Two days before the public announcement, Australia’s ambassador in Washington, Kim Beazley, informed Obama administration officials, in accordance with a clause in the US-Australia free trade agreement that requires Washington to be consulted on the blocking of any US investment proposal.

Several Wall Street hedge funds wagered on the Australian government approving the GrainCorp sell-off. Hockey’s announcement, which was due next month but apparently brought forward to coincide with the holiday closure of US share markets, caught them by surprise. The *Australian Financial Review* reported that “several US hedge funds had their thanksgiving dinners interrupted by phone calls to inform them that their Australian trade had gone sour.”

John Corr, of hedge fund Aurora Fortitude, which

invested 1 percent of its portfolio on an ADM takeover, declared the Abbott government’s decision “would elevate the perception of political risk in Australia among international funds and companies.”

The coalition government is now under pressure to approve a series of major proposed Chinese investments currently being considered by the Foreign Investment Review Board. These include China’s State Grid Corp’s attempted \$7.4 billion purchase of local utility assets, and Yanzhou Coal Mining’s bid for full ownership of Yancoal Australia.

The opposition Labor Party and the trade unions condemned the government for blocking ADM’s buy-out of GrainCorp. Australian Workers Union secretary Paul Howes said Hockey had “buckled” to the National Party and sent “a message to the rest of the world that Australia isn’t interested in becoming the food bowl for Asia.”

Shadow treasurer Chris Bowen boasted that the Labor Party was the most effective advocate of the interests of corporate Australia as a whole. Hockey, Bowen declared, was too “weak” to oppose those within the coalition government opposed to the sale, and showed he was unable to “make the tough decisions.”



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