



PROFESSIONAL CONSULTANTS GROUP
WEALTH MANAGEMENT



Food, glorious food!

Will food become the new crude?

The developed economies of the last century were fuelled by crude oil, and the barrel price of crude became one of the world's most important financial indicators. It seems, however, the age of oil is receding and the economic health of the 21st century may be assessed by another measure — the price of food. If food replaces crude as the world's most important basic trade commodity, what will this mean for Australia's future and for investment portfolios?

A decade ago, it would have been hard to imagine a world where giant multinationals and cashed up venture capitalists were battling each other for a share of the world's fertiliser, irrigation water, and soybean markets. Yet today almost anything to do with large scale agriculture and the marketing and processing of agricultural products is a much sought after investment prospect.

Australian mining giant BHP Billiton is attempting to take over the world's largest phosphate fertiliser mining company, Potash Corporation of Canada. At the same time, the Canadian wheat marketing giant Agrium is in the process of buying AWB, the former Australian Wheat Board. Even irrigation water has become a hot commodity. Presently one Singapore-based speculator is buying as many Australian irrigation licences as they can, and some local investment fund managers are in the process of setting up Australian water licence funds to attract overseas investors to the Murray–Darling Basin.

There are at least four reasons why this is happening:

1. Food is scarce and getting scarcer. When demand exceeds supply, prices go up, as does political pressure. In 2007 and 2008, for example, the near doubling of many staple food prices led to riots in more than 30 countries.
2. Some feel food may be a safer investment category than dotcoms, home mortgages and many other markets. Even in this post GFC world, people still have to eat. Of course, food is sensitive to environmental disasters such as droughts, floods and fires. But when the wheat is in flames on the Russian steppes, the price of Australian and Canadian wheat is pushed up.



3. Food is already big business, not so much for the individual farmers who grow it, but for the listed corporations who sell inputs like fertiliser, or ultimately distribute and market food. The profit mark-up can be significant. Coffee growers in South America get 20 cents a kilo for beans that are processed and then sold in western supermarkets as instant coffee for \$30 per kilo.
4. The agribusiness market is wide open and big investors have barely scratched the surface. The export potential of phosphate fertiliser is potentially as big as Australian iron ore, since China is the world's biggest purchaser of both commodities. Needless to say, Beijing is keeping a close eye on the BHP Billiton negotiations.

Where to now?

There is no doubt food security will escalate in priority on the world's political agenda, especially if food shortages are linked to civil unrest and political instability. Closer to home, however, what are the implications for Australian wheat farmers if the marketing of their crops is controlled by a Canadian company? Or if significant volumes of Australia's precious irrigation water are controlled by foreign investors?

Many other Australian assets are owned by foreign investors, but is food so basic to survival and security that it should be viewed in a different light? Some participants in a recent ABC PM discussion panel on Australian food security suggested the Foreign Investment Review Board should treat investment by private enterprise in Australia's food supply chain as similar in nature to other foreign investment, but take a stricter approach to investment by foreign sovereign bodies which may result in foreign control of our agricultural output.

One other issue that will impact the investment potential of agricultural shares is climate change. BHP's bid for Potash Corporation is probably motivated in part by a desire to shift away from carbon-based fuels such as coal, which will come under increasing pressure if carbon taxes are introduced. However, according to CSIRO's latest estimates, Australia will become hotter and drier in coming decades and this is also a potential problem for agricultural producers.

For individual investors and fund managers, it all boils down to risk versus return. We are seeing mergers and acquisitions among ASX-listed companies in sectors involved in farming inputs (fertiliser, seeds) or farming production. This should encourage investor interest in existing listed companies. As with any major change in underlying economic conditions, the value shift from crude to food could open up new investment opportunities. As a result, more Australian investors could end up as Pitt or Collins Street farmers — at least as far as their investment portfolios are concerned.