

**Submission to  
ACCC Review:**

**~ Proposed acquisition by Cargill Australia of the AWB Commodity  
Management Business ~**

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**NSW Farmers' Association  
Level 25, 66 Goulburn Street  
Sydney NSW 2000**

Ph: (02) 8251 1700

Fax: (02) 8251 1750

Email: [emailus@nswfarmers.org.au](mailto:emailus@nswfarmers.org.au)

## Executive Summary

- The NSW Farmers' Association (the Association) is opposed to the proposed acquisition by Cargill Australia of the AWB Commodity Management Business.
- As competitors within the market for grain trading, storage and handling, transport and logistics and port terminal services (the market), Cargill Australia and AWB Commodity Management Business are a significant market constraint to each other.
- Cargill Australia are already existing in the market place and allowing Cargill to acquire AWB would reduce the number of marketers
- Significant barriers to entry exist within the market which would limit the opportunities for an existing competitor or a new entrant to the industry to compete at a level with Cargill Australia and furthermore, to be in a position to limit the exercise of market power by the merged entity.
- The existing link through Allied Milling allows the potential for further collaboration between GrainCorp Ltd and Cargill Australia in storage and handling fees.
- The proposed acquisition comes on the back of significant consolidation in the Australian grains industry whereby over the past 15 years the amount of grain companies with grower history has decreased from 15 to 3. The Association is concerned if allowed the proposed acquisition will set a precedent for even further consolidation within the industry. The Association is concerned the grains industry is headed for a duopoly.
- The Association sees many similarities between the case at hand and the proposed acquisition by Cargill Australia Ltd of Goodman Fielder's commercial edible fats and oils business which was rejected by the ACCC in May 2010.
- The proposed acquisition by Cargill Australia of a 50% interest in the Melbourne Port Terminal which is operated by Sumitomo would further strengthen Cargill Australia's vertically integrated position of dominance in the supply chain.
- The Melbourne Port Terminal is currently not included in the existing access undertakings that are required to be presented to the ACCC by other bulk handling companies, GrainCorp Ltd, Viterra and Co-operative Bulk Handling.
- Cargill would have the ability to manipulate the shipping stem, access to port by train, and receivals at port by road to advantage the shipping of grain to their customers at the expense of the customers of rival grain exporters.
- Cargill would be able to shore up supply of grain from the Australian geographic region, and would use this to balance its supply internationally, both in a geographic sense and to plug any gaps in the year-round supply to Cargill customers.
- The Association encourages the ACCC to scrutinise the losing bids for the AWB Commodity Management Business to rule out the possibility of collusion between Agrium Inc and Cargill Australia.
- The Association seeks clarification as to whether Cargill Australia would be obliged to post prices and take receivals for other grain trading companies at its sites if it were successful in purchasing the AWB GrainFlow sites as part of this acquisition.

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- Cargill does not accept bids from other grain marketing companies at its receival sites in the United States. Similarly Cargill Australia does not accept bids from other grain marketing companies at its joint venture with BFB in Temora, NSW. If this business practice were to continue after it had purchased the AWB GrainFlow sites, Part IIIA of the Consumer and Competition Act (formerly the Trade Practices Act) regarding access to facilities will require the ACCC to assess the GrainFlow sites and determine whether they qualify as assets of national significance.
- If the GrainFlow sites are deemed to not qualify as assets of national significance, the Association recommends that as alternative non-declared services they should be subject to ACCC access undertakings. This will require Cargill Australia to either divest some of the assets and/or open up access to other grain marketing companies.
- United Nations investigators have alleged that Cargill provided a kickback of \$81,000 to Saddam Hussein when Cargill sold Iraq \$1.2 million worth of palm oil through a Malaysian division. The sale of the oil was legitimate under the oil for food program, however the alleged kickback was not<sup>1</sup>.
- A farmonline poll conducted from 13 January to 21 January 2011 asked the question “Do you think Cargill should be allowed to buy AWB?”. There were 538 respondents, of which 69% opposed the proposed acquisition, 22% approved and 9% didn’t care.

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<sup>1</sup> Minnesota companies implicated in Oil-for-Food scandal  
[http://www.kare11.com/news/news\\_article.aspx?storyid=110099](http://www.kare11.com/news/news_article.aspx?storyid=110099)

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## **Introduction**

The NSW Farmers' Association (the Association) appreciates the opportunity to present its views regarding the proposed acquisition of the AWB Commodity Management Business by Cargill Australia to the Australian Consumer and Competition Commission (ACCC) for their consideration.

The Association is Australia's largest State Farming Organisation representing the interests of over 12,000 farmers, ranging from broadacre cropping, meat, dairy, wool and grain producers, to more specialised producers in the horticulture, egg, pork, oyster and goat industries. This submission is made in the context of the potential impact of the proposed sale of the AWB assets upon Australian grain producers, with a particular reference to grain producers located in NSW.

The margins in farming are becoming increasingly insufficient to support external corporate shareholder investments, and also support the grower base upon which those very same investments are made.

The Association believes there is a transformational shift in ownership in the Grain Industry and value being exported to others country's shareholders, including global growers, this is not good for the Australian grower. Through this proposed acquisition Cargill would be able to shore up supply of grain from the Australian geographic region, and would use this to balance its supply internationally, both in a geographic sense and to plug any gaps in the year-round supply to Cargill customers.

Growers internationally are our competitors and they are inevitably increasing their own economic positions at the expense of Australian growers by taking shareholdings in the Australian grain companies, the only loser here is the Australian grower, their competitive advantage is being eroded.

## **Overview of AWB GrainFlow storage sites**

AWB has a series of grain receival, storage and loading sites concentrated across the Eastern Seaboard of Australia in their AWB GrainFlow sites. These sites have the capacity to store approximately 3 million tonnes of grain at 22 sites, 4 in Queensland, 10 in NSW, 4 in Victoria and 4 in South Australia

AWB GrainFlow grain storage centres feature high capacity, modern equipment. Through this receival infrastructure an ability to deliver rapid turnaround of trucks during harvest is realised.

The receival process includes sample and classification of grain, gross truck weighing, tipping off and completion with the capture of the truck tare weight.

The grain storage and handling industry has seen significant increase in the train loading capacity since AWB GrainFlow's inception in 2005 through infrastructure upgrades, operational protocols and 24 hours a day, 7 days per week loading.

Rapid loading of trains is a feature of the AWB GrainFlow infrastructure with the benchmark of 2.5 hours to load a 2,000 metric tonne train, allowing loading of multiple trains over several days. This is compared with "normal" train load times of more than five hours prior to AWB GrainFlow's entry into the industry.

When out loading grain, AWB GrainFlow utilise the ground conveyor system and have capacity to fill the two 1350 metric tonnes over rail bins at a rate of 300 metric tonnes per hour from the bunkers. Trains are loaded under power along AWB GrainFlow sidings and balloon loops that allow trains access from network lines to rail loading bins.

AWB purchases approximately 5 million tonnes of grain from Australian farmers, making up 13% of the national total.

## **Overview of Cargill and Cargill Australia**

Cargill Financial Information - As a privately held company, Cargill make detailed financial information available only to authorised institutions. This leads to a lack of transparency in the company's dealings and its operations as the world's largest agricultural commodity trader.

Cargill reports its net earnings on a quarterly basis. Cargill's fiscal year runs June 1 through May 31. In fiscal year 2010, Cargill reported net earnings of \$US 2.6 billion on sales and other revenues of \$US 107.9 billion.

The Wall Street Journal reported on 12 January 2011 that supply disruptions in the global food chain and rising prices has contributed to Cargill recording a net income in the three months to November 30 2010 of \$US 1.49bn, up from \$US 489m in the same period a year earlier.

First-half earnings in the six months to the end of November 2010, more than doubled to \$US 2.37bn, up from \$US 1.01bn. Revenues in the second quarter rose 16 per cent to \$US 31.1bn, lifting first-half revenues to \$US 58.9bn<sup>2</sup>.

Cargill Australia - Cargill Australia owns 95% of Australia's oilseed crushing capacity, beef abattoirs in Wagga and Tamworth, and owns 40% of a joint venture with GrainCorp Ltd in Allied Mills flour mills. Allied Mills process approximately 55% - 60% of milling wheat in Australia.

Cargill Australia's upcountry Australian Grain Accumulation business (the purchase of grain from producers stored away from port prior to transport for shipping) will be absorbed as part of the AWB brand following the company's purchase of the AWB commodities business. Cargill will utilise the accumulation network built up by AWB and utilise the AWB brand.

Australian Grain Accumulation Services Pty Ltd (AGA) originates grain and oilseeds on behalf of Cargill and Allied Mills. The company has an extensive field origination network with 11 regional offices spread throughout Queensland, New South Wales, Victoria, South Australia and Western Australia.

AGA was formed in 2003 and is a wholly owned subsidiary of Cargill Australia Ltd. AGA acts as the buying agent for Allied Mills and Cargill for their grain and oilseeds.

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<sup>2</sup> Blas, Javier: Commodities Editor, Wall Street Journal - *Food supply woes fatten Cargill earnings*. Published: January 12 2011  
<http://www.ft.com/cms/s/0/dcc6a184-1e5e-11e0-bab6-00144feab49a.html#axzz1BFcUwYDB>

This comes on the back of significant consolidation in the Australian grains industry whereby over the past 15 years the amount of grain companies with grower history has decreased from 15 to 3.

Cargill purchases approximately 2 million tonnes of grain in Australia per annum, making up 5% of the national total.

### **Expansion of GrainCorp Ltd**

GrainCorp Ltd has acquired numerous grain supply chain assets in the eastern States grains supply chain mainly in the last 15 years. Previous decisions by the ACCC in allowing these acquisitions have relied upon the significant exercise of market power by AWB in their reasonings.

With these acquisitions, GrainCorp continues its acquisition program with the recent purchase of United Malt Holdings in 2009.

Graincorp and Cargill are major competitors in food manufacture yet Graincorp have market knowledge of existing competitors such as Manildra's buying program - price and quantity.

Other competitors within the market seeking to purchase grain, such as Manildra need to utilise the storage network of the GrainFlow sites and GrainCorp Ltd sites. It would not be practicable for these end users to develop their own storage and handling sites due to the high capital costs of entering such an industry.

Because of this, without an independent AWB Commodity Management operating within the market, GrainCorp Ltd and Cargill Australia together form significant bargaining power which the Association believes would distort the market behaviour.

Further, if other end users such as Manildra build their own storage, this continues to affect the market, on the basis that other commodity traders within the market operate upon a cash purchase model and as such would not operate grain marketing pools, which is an important form of marketing utilised by Australian grains producers.

## 1 Storage and Handling

### 1.1 In relation to up-country storage services:

- a) **What is the maximum distance from the farm that producers would be willing to ship grain to an up-country storage provider?**

Trucks at harvest time are becoming harder to secure and organise and it is very important that the trucks that are secured are provided with a quick turn around time on-farm, preferably trips to the up-country storage provider of not more than 50km, at least 2 trips per day to and from the silo.

- b) **Are Cargill and AWB particularly strong competitors in offering grain storage in any particular geographic locations or regions?**

In 1999, Cargill entered the grain storage and handling business with the establishment of two joint venture companies to build three new storage facilities. Cargill Australia Ltd and GrainCorp Limited established a joint venture to build modern and efficient storage facilities at Red Bend and Henty in New South Wales.

A joint venture was established with BFB Logistics and Agriculture Pty Ltd to build modern and efficient storage facilities at Temora in New South Wales.

Corresponding AWB sites in these areas include Oaklands, Stockinbingal and Bogan Gate AWB GrainFlow sites.

GrainFlow Site	GrainCorp/Other major receival Site	Distance
Oaklands AWB GrainFlow site	Henty Cargill Australia/ GrainCorp Ltd	100 kms.
Bogan Gate AWB GrainFlow site	Red Bend Cargill Australia / GrainCorp Ltd	70 kms
Stockinbingal AWB GrainFlow	Temora Cargill Australia/ BFB Logistics and Agriculture Pty Ltd	34 kms

All three Cargill Australia joint venture storage sites are significant sites with storage capacity in excess of 100,000 tonnes and potential to expand this capacity relatively quickly and easily.

- c) **Is there significant excess capacity of up-country storage facilities in eastern Australia? To what extent is capacity utilisation seasonal? If there is excess capacity, does this give suppliers of storage services an increased incentive to offer competitive storage rates?**

There is not excess storage capacity. Silo committees have been convened by bulk handlers to monitor this need from year to year to advise how much storage to provide, however it is up to the bulk handler's discretion as to how much storage space is provided.

**d) Are there any factors that make it difficult for existing suppliers of up-country storage services to expand their operations or for new parties to enter the grain storage market? Please provide details on the nature and extent of any such factors.**

There are numerous factors that make it difficult for existing suppliers of up-country storage services to expand their operations or for new parties to enter the grain storage market.

- Cost of building new assets
- Access to appropriate land to build the storage facilities
- Unloading and receival facilities – hoppers and elevators
- Weighing facilities – 100 T weighbridge
- Ability to safely store – flood free area, free from vermin and pests
- Ability to safely fumigate – phosphine and carbon disulphide are classified as hazardous substances and require appropriate training and protection to be used.
- Moisture management system
- Sampling and testing facilities – sampling equipment and testing procedures are arduous and expensive. For example a falling numbers machine used in wet harvest to determine the quality of weather affected grain costs approximately \$30,000.
- Segregation facilities – The more segregations a company receives or the market determines need to be received, the more cost to build and
- Facilities to clean and dry grain – the necessary aeration requires two litres of air per second per tonne, which requires approximately \$4 per tonne investment.
- Accumulating and assembling point
- Outturning facilities
- Access to road network
- Access to rail network

**1.2 On-farm storage:**

**a) Can producers use such storage as an alternative for up-country storage? Are there any limitations or exceptions to this?**

Producers can utilise on-farm storage as an alternative for up-country storage, and for many would add flexibility, reduce stress levels at harvest time and aid with grain marketing decisions. The large costs associated with on-farm storage however, as outlined below in Table 1, mean that the ability to finance the cost of the construction is beyond the reach of a large majority of Australian farmers, especially after 10 years of drought.

The Association believes that on-farm storage should not be the focus of this review, which should be focussing on the AWB Commodity Management Business' assets and Cargill Australia's assets and business structure.

The proposed acquisition should not result in Australian growers having to compensate for a reduction in competition by building storage infrastructure to avoid reductions in prices offered by grain marketing companies at harvest time, who are also providers of storage and handling assets.

AWB Ltd notes that the average shipments payload out of Australia to export markets are 35,000 metric tonnes. It is unlikely that an average sized shipment could be filled entirely from on-farm stored grain<sup>3</sup>.

**b) What are the costs associated with installing on-farm storage capacity.**

Fully aerated on-farm steel silo storage including sand-base, concrete pad, silo materials, delivery and construction is provided in Table 1 below;

**Table 1: Cost of On-Farm Silo Storage**

Silo Capacity (metric tonnes)	Cost (A\$) per Metric Tonne
100	\$150
1000	\$100
1500	\$90
2000	\$80

**c) Would a producer consider constructing additional on-farm storage capacity in response to a 5-10% increase in the price of up-country storage services? Why/why not?**

To use GrainCorp Operations Ltd Fee Schedule for 2010/2011 for one (1) metric tonne of wheat as an example, \$6.35 is charged as a receival fee, \$1.38 per month storage fee, and \$5.70 as an outloading fee (assuming it is not a road movement on a weekend when the outloading fee would increase to \$7.40). Assuming the grain stays in storage for 4 months, this total storage and handling fee amounts to \$17.57 per metric tonne.

A 5-10% increase in this figure is \$0.88 - \$1.76 per metric tonne. In response to such an increase, grain producers would be unlikely to react to such a price increase, because at a cost of \$100 per metric tonne for 1000 tonne silos, it would take 56 years to pay off the principal alone.

**d) Has there been a trend towards increasing use of on-farm storage? If so, what has been driving this trend?**

Yes there has been an increase in the use of on-farm storage, however there are a number of factors in favour of; and against making such an investment;

**Positive Factors**

- Flexibility and reduced stress levels at harvest time.
- Assistance with decision making in terms of grain marketing.
- Avoid price gouging at harvest by providers of storage and handling.

**Negative Factors**

- Greater up-front cost.
- Risk of insect control failures if silos are not aerated and grain is too moist when delivered. This is a potential risk to the quality control of Australian grain.

<sup>3</sup> AWB Ltd - submission to the ACCC interested party consultation into Cooperative Bulk Handling Ltd exclusive dealing notification N93439  
<http://www.accc.gov.au/content/trimFile.phtml?trimFileName=D10+3670074.pdf&trimFileTitle=D10+3670074.pdf&trimFileFromVersionId=968220>

- Cash flow is often required due to the seasonal nature of grain harvest, therefore on-farm storage is not an option for many growers.

### **1.3 What impact, if any, is the proposed acquisition likely to have on competition for the supply of grain storage and handling services within Australia?**

There is a significant risk that the existing relationship between Cargill Australia and GrainCorp Operations Ltd will result in a lessening of competition between them in the future regarding the setting of storage and handling fees. Either company will most likely be reluctant to undercut the other, lest they strain the relationship for the Allied Mills Joint Venture that they already have. Therefore the possibility that these two companies could further the duopoly/oligopoly is a significant risk to decreasing competition in the Eastern States.

The difference between the above scenario and the current AWB Commodity Management Business competing against GrainCorp is that AWB and GrainCorp currently have supply chains largely independent of each other.

## **2 Grain transport and logistics**

### **a) What impact, if any, is the proposed acquisition likely to have on competition for the supply of grain transport and logistics services within Australia?**

As per storage and handling fees;

There is a significant risk that the existing relationship between Cargill Australia and GrainCorp Operations Ltd will result in a lessening of competition between them in the future regarding the setting of transport and logistics fees. Either company will most likely be reluctant to undercut the other, lest they strain the relationship for the Allied Mills Joint Venture that they already have. Therefore the possibility that these two companies could further the duopoly/oligopoly is a significant risk to decreasing competition in the Eastern States.

The difference between the above scenario and the current AWB Commodity Management Business competing against GrainCorp is that AWB and GrainCorp currently have supply chains largely independent of each other.

## **3 Port terminal services**

As part of the proposed acquisition, Cargill proposes to acquire a 50% interest in the Melbourne Port Terminal which is operated by Sumitomo.

### **a) What impact, if any, is the proposed acquisition likely to have on the ability of grain exporters (other than Cargill) to access port terminal services at the Melbourne Port Terminal?**

The proposed acquisition by Cargill Australia of a 50% interest in the Melbourne Port Terminal which is operated by Sumitomo would further strengthen Cargill Australia's vertically integrated position of dominance in the supply chain.

The Melbourne Port Terminal is currently not included in the existing access undertakings that are required to be presented to the ACCC by other bulk handling companies, GrainCorp, Viterra and Co-operative Bulk Handling.

Cargill would have the ability to manipulate the shipping stem, access to port by train, and receivals at port by road to advantage the shipping of grain to their customers at the expense of the customers of rival grain exporters.

#### **4 Grain trading**

**4.1 In previous assessments the ACCC has defined state-based markets for grain trading. In light of deregulation and other market developments in recent years, are grain trading markets appropriately viewed as:**

- a. state-based;**
- b. regional (e.g. east-coast);**
- c. national; or**
- d. global.**

Due to infrastructure restrictions, the sheer costs of freight and large distances involved the grain market in Australia is most accurately defined as state-based.

There are three components to all grain prices – future, foreign exchange and basis, and each component has an independent impact on price.

Futures contracts are a standardised forward contract that is legally binding and traded on an exchange enabling commodities to be sold at a fixed time in the future.

Exchange rates significantly impact on final grain prices. Most Australian grain is sold in US dollars and then converted into Australian dollars.

The basis is the difference between the United States futures market price and the price offered for Australian grain.

The futures market provides the opportunity for buyers and sellers to agree on a price for the sale of the commodity at an agreed time in the future.

The Chicago Board of Trade is the largest futures market in the world and is used by buyers and sellers around the world to hedge their price risk. The CBOT is the mechanism around which many of the products offered to local growers are priced.

In 2008 the Australian Securities Exchange began trading agricultural derivatives. There are now five different commodities listed and available to trade on ASX: Western Australia Wheat, Australian Milling Wheat (NSW), Australian Feed Barley, Australian Sorghum and Australian Canola.

#### **4.2 To what extent is grain within Australia priced at ‘export parity’?**

- a. Do grain prices in Australia typically reflect global prices?**

As aforementioned above the calculation for grain prices within Australia is a function of the US futures market and the Australian/US exchange rate, for these reasons the grain price in Australia moves to reflect global prices. This only differs when there are

local shifts in demand and supply. When these occur, grain prices can fluctuate from the standard global price.

**b. How frequently, and in what circumstances, do grain prices in specific regions or states diverge from global prices?**

Prices within the grain market are divided into separate pricing regimes. The prices can either be set through spot markets, where the price is determined upon delivery and then traded internationally by the trading corporations. Alternatively, prices can be set using more complex contractual options, such as; forwards, futures, options, swaps and basis contracts. The prices received by the farmers within the spot market commonly diverge between each location and corporation. This can be due to a lack of market transparency. Each day the price is set by the traders, this is then altered dependent on the grade of the product and site of the location. The location price is a function of the differing freight costs.

Price divergences occur within the grain market due to supply shocks and market inefficiencies. These can include natural disasters (such as the drought within Australia in 2006/07), that significantly affect the supply of grain, and can result in regional price shocks. Currently, within a competitive market, these supply shocks are not deliberately influenced. However, the market shocks can be artificially influenced when corporations have captured a large market share, or hold significant market power or influence.

**4.3 Are there any factors (including, for example, the Wheat Exports Australia licensing requirement) that make it difficult for existing grain traders to expand their operations or for new parties to enter the grain trading market? Please provide details on the nature and extent of any such factors.**

After the Wheat Export Marketing Act 2008 (NO. 65, 2008) was introduced, it has become increasingly difficult for new organisations to enter the market. The specifications are outlined under section 13 of the act. They enforce tight restrictions on companies who plan to use and operate equipment within the ports. One significant barrier to entry includes the significant amount of start up capital required to initiate trading.

**4.5 What impact, if any, is the proposed acquisition likely to have on competition for the supply of grain trading services within Australia?**

GrainCorp Ltd already know what Manildra pay for their grain. Manildra has to post a price at the GrainCorp site for the following day at 5pm each day. This price goes on the GrainCorp board at the up-country receival sites for the next day's trade.

GrainCorp Ltd also know the volume of grain purchased at their sites by Manildra.

## **5 Flour milling**

**5.2 Would the proposed acquisition enable Cargill to raise the input costs of other flour millers? Why/why not?**

The proposed acquisition will enable Cargill to raise the input costs of other flour millers, dependent on conditions requiring GrainFlow sites to receive and post prices for other traders.

There are only two entities of any substance operating in flour milling, Allied Mills and Manildra. There is a third, Westons, however Westons supplies in-house to Tip-Top and doesn't compete in the broader market for customers such as Baker's Delight and Brumby's.

It is not as simple as Manildra investing in its own receivables, storage and handling network because they are an end-user only, and not a marketer, storage and handling business like Cargill and GrainCorp. Manildra only offer cash prices, are only a buyer on behalf of themselves, and do not offer pool products or other market derivative products.

## **6 Oilseed processing and oil refining**

### **6.1 Would the proposed acquisition enable Cargill to raise the input costs of other oilseed processors? Why/why not?**

The Association believes the risk in the proposed acquisition would be more relevant to question 6.2 below.

### **6.2 Would the proposed acquisition enable Cargill to decrease prices paid for oilseeds?**

The proposed acquisition would further vertically integrate the oilseed business of Cargill Australia, which they already have 95% control over. Combining this position of dominance in processing with ownership of the 22 GrainFlow storage sites would place them in a position of dominance in storage also and substantially lessen competition in the oilseed value chain.

## **Conclusion**

The merger of Agrium Inc and Cargill Ltd, two significant competitors within the Australian grain industry, poses a serious threat to the competitive nature of the industry. The considerable barriers to entry, both economic and legislative, are further conducive to allow market manipulation and distortion.

The reduced market competition will be most evident within the storage, handling, processing and port sectors of the value chain. The proposed acquisition allows Cargill Australia to extend its grasp within the Australia grain market, of which it already has a 95% control over the oilseed sector, and a Joint Venture with GrainCorp Ltd in Allied Mills, which processes about 55% of the nation's flour.

The reduced competition will result in a distorted market that is naturally tilted towards benefiting corporate shareholders and shorting Australian farmers. Through the increase in market share, and with it, the probability of collusive activities, this acquisition cannot be seen as a benefit for Australian farmers or society as a whole.