

FINANCIAL REVIEW

HD Missing the boat on food processing

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The weakness in commodity prices has exposed Australia's vulnerability to global factors beyond its control. It also highlights the lack of a fallback option when **oil**, **iron ore** and **coal** prices suddenly go into freefall.

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The debate about the demise of Australia's manufacturing industry has gone quiet this year with **business** and government focused on a strategy to bolster areas where the country has natural advantages such as food and agribusiness, **mining** technology and **oil** and gas.

Food manufacturing continues to struggle despite growing demand for Australian products – such as beef and **dairy** – from **China**'s growing middle classes. The \$1.45 **billion sale** of small goods giant Primo Smallgoods to Brazilian food giant JBS last month highlights the growing appetite offshore firms have for niche food and beverage producers. But their willingness to sell up is also a reflection of the challenges manufacturers face tapping into this demand on their own.

Paul Lederer, the founder of Primo, who is best known for owning the Western Sydney Wanderers football team, says he is increasingly concerned about where Australia's manufacturing industry is heading.

"It is diminishing. I personally feel it is not a good trend. America, Germany, Japan, and **China** have a massive manufacturing base but in Australia we are losing a lot of that. We talk about tax reform, industrial relations and all that. But I think it's no more than a talkfest," says Lederer, who **sold** his family's remaining 30 per cent **stake** in Primo to Brazil's JBS last month. Xi Jinping's revelation

Lederer, No. 75 on the BRW 200 Rich List, went to see **Chinese** President Xi Jinping speak in Canberra last month which, he says, made him realise the massive opportunities for Australia in the region. "Their economy will double in the next 10 years which is a staggering statement. We are in a phenomenal position but we are not taking advantage of it."

The **sale** of Lederer's remaining **stake** in Primo, Australia's biggest manufacturer of premium ham, bacon and salami, came just after G20 leaders met in Brisbane to talk up opportunities for improved global trade and investment. His decision, though, was prompted by an attractive offer from JBS, the world's biggest meat processor. It was the right time for him to sell personally and an opportunity for his private **equity** partner, Affinity, to cash out at a significant profit. Foreign investment enables growth

Lederer, like many in agribusiness, embraced foreign capital to enable his **business** expand to the next level in an environment with few local incentives. Like the partnership with Affinity's Brett Sutton, the **sale** to JBS is expected to open new doors for growth, particularly in Asia.

Lederer says Australian **business** has become too introverted. "They [JBS] can see the potential. We don't look at the world as a market here enough. We should look at the world as one market a bit more optimistically.

"A lot of our assets are being **sold** but at the end of the day the people are employed here, the money stays here. The world is a global place."

Affinity acquired a 70 per cent **stake** in Primo in 2011 and helped to fund the **company's** \$240 **million** high-care food processing plant. It also acquired New Zealand's largest bacon and ham producer, Beehive.

Investment bankers are tipping a surge in the amount of foreign capital, particularly from **China**, which will be directed at Australian food companies. Australia's free trade agreement with **China** is expected to help bolster the number of takeovers in an industry which is yet to reach its full potential.

Despite the falling Australian dollar, high production costs remain the manufacturing industry's biggest handbrake.michael.smith@afr.com.au

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