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Asian sugar company kills $360m investment program

Illustration: David Rowe

by **Tony Boyd**

The decision by Asia's biggest sugar company, Mitr Pohl, to kill off $360million in new investment in Queensland shows that the rising hostility toward foreign investors has negative implications for the economy.

The Thai sugar company is redirecting the capital earmarked for Australia to its operations in Thailand, Laos and China after the Katter Party and the LNP pushed legislation through the Queensland Parliament to give canegrowers control over the output of sugar mills.

This could be the start of a broader capital strike in the Queensland sugar industry as the other owners of sugar mills contemplate doing business under the restrictive rules imposed by the Katter bill.

The two other companies which invested heavily in the sugar industry following deregulation are China's COFCO Group and Singapore's Wilmar International.

Mike Barry, the CEO of the local Mitr Pohl subsidiary, MSF Sugar, told Chanticleer the cancellation of capital investment at the company's four Queensland mills would stop the proposed construction of a 30-megawatt green energy plant that would have used cane waste.

"Unfortunately for our Australian business this means reduced funding and almost certainly fewer jobs for Maryborough, South Johnston, Gordonvale and the Tablelands where our mills operate," he said.

"All funding to non-essential capital projects has been ceased."

Mitr Phol's investment strike was revealed as Macquarie Group chairman Kevin McCann said that agriculture had become the key battleground for those opposed to foreign investment.

"The industry that has become hardest to invest in now is agriculture and livestock," he told a breakfast meeting in Sydney on Wednesday arranged by Blenheim Partners and MGSM.

"It's a cottage industry, its going to need a lot of capital. There is huge interest right round the world, not just Chinese but the Gulf. People want to get into the food chain."

"That needs capital, at the moment it is becoming extremely hard for foreign investors to invest there."

McCann issued a warning about the treatment of Chinese investors by drawing on Macquarie's recent experience in the privatisation of the NSW transmission network TransGrid. Macquarie partnered with China's State Grid Corp but lost out to a consortium led by Hastings Funds Management.

"I think the worrying thing is the xenophobia we saw on the transmission lines," McCann said.

"I am not a sore loser, we came second, but the stuff that was being put into the media about security issues involved in State Grid – there's a strain there that is quite nasty and I think it goes to racism.

"So we have to be extremely careful.

"We can be robust with these investors but we shouldn't be xenophobic and we shouldn't be racist because at the end of the day their capital is really important for this economy."

The rising hostility toward foreign investors is becoming evident to those working on takeover deals involving Chinese buyers which require approval of the Foreign Investment Review Board.

Chanticleer understands that a takeover deal in a non-sensitive sector of the economy involving a Chinese buyer has been stuck in front of the FIRB for two and a half months with no apparent clear reason as to why.

But a possible explanation is the policy mindset of the new federal treasurer Scott Morrison.

He has brought to the portfolio the same sort of political thinking that he used so successfully as immigration minister. That strategy was to show toughness to reassure the electorate about who is in charge.

It is not clear this sort of strategy will work in relation to foreign investment. But one obvious consequence is that some foreign buyers, most likely from China, will have to be rejected on deals.

The recent rejection of the Chinese takeover of the S. Kidman & Co cattle empire could rightly be blamed on the advisers to the buyer. They failed to understand the security sensitivities involved.
In the sugar industry, McCann reckons the three foreign companies got it completely wrong by not having a joint venture deals in place with local operators.

"I don't think some foreign investors have been very smart about the way they have gone about it – joint ventures are the way to go," he said.

"Australians should manage the assets on the ground and foreigners will have to accept that's the case."

McCann took a shot at the foreign sugar companies when he said: "My counsel to them, particularly to my Chinese clients is that if you are going to get into the sugar industry for goodness sake take an Australian partner because you are on a hiding to nothing if you take over a sugar mill in some small town in Queensland."

The Australian Sugar Milling Council CEO, Dominic Nolan responded by saying: "Mr McCann is right to point out the risk of investing in Queensland agriculture given the LNP's current policy of re-regulating successful industries. But there is little comfort in Mr McCann's advice, because the LNP-sponsored sugar re-regulation removes property rights from all sugar milling companies – both foreign owned and locally owned mills."

One of the unusual consequences of the re-regulation of the Queensland sugar industry is that Queensland premier Annastacia Palaszczuk will have to argue in favour of federal Liberal policies on competition and trade and against the policies of the LNP when speaking to Liberal Prime Minister Malcolm Turnbull at Friday's COAG meeting in Sydney.

AUDITORS LACK SCEPTICISM

The fact that regulatory surveillance caused the $600 million of restatements in audited financial statements since June 30 tells you that some dodgy numbers are getting past audit firms.

But just how bad are the country's auditors? Should investors be concerned about a broader pattern of material misstatements at public companies?

Chanticleer sought answers to these questions from John Price, who is a commissioner at the Australian Securities and Investments Commission.
Price says the overall standard of audits in Australia is high relative to global standards. Restatements affect only about 4 per cent of public companies, a figure which is much lower than other developed countries.

But that does not mean Price is not concerned about the auditing profession.

He is well informed about what is happening in the industry thanks to the completion of the latest audit inspection program.

When this report is released next week it will show that the issues of concern raised in the last report 18 months ago have not changed. It would seem auditors continue to lack sufficient scepticism and continue to fail to obtain reasonable assurances that financial statements are free of material misstatements.

Also, the report found that auditors continue to rely too heavily on the reports of third party experts.

Lack of financial resources cannot be used as an excuse for slackness in audits.

It is clear from anecdotal evidenced that the big six accounting firms in Australia are experiencing a purple patch.

Their non-audit business are benefiting from the surge in mergers and acquisitions activity, the tidal wave of interest in infrastructure assets and the privatisation of government owned businesses.

Price says he would be very worried if audit firms operating in Australia were not providing sufficient resources to their auditing businesses. He said it would be a false economy for boards of directors to slash audit fees to save money.

"If I was a director of a company director the amount of money I pay for a good audit is next to nothing compared to the reputational damage from a bad audit," he says.

Price points out that Australia is not alone in finding persistent problems with the audit profession.

The latest report from the International Forum of Independent Audit Regulators found that there were audit deficiencies in about 20 per cent of audits reviewed for fair value measurement and internal control testing.

"A factor underlying many audit deficiencies is insufficient exercise of professional scepticism during the performance of the audit," the IFIAR said.

"IFIAR believes that enhancing professional scepticism of practitioners contributes significantly to quality financial statement audits and should be a high priority for audit firms, given the recurrence of audit deficiencies."

Price says ASIC has welcomed the co-operation of audit firms in lifting audit standards but he wants to see concrete action with improved results in the ASIC surveillance programs.

ASIC has responded to the repeated findings of failings in audits by introducing an "action plan". This has been used among selected firms but will be rolled out more broadly.

Read more: http://www.afr.com/brand/chanticleer/asian-sugar-company-kills-360m-investment-program-20151209-gljq50#ixzz3uzwtDJMy