FOREIGN OWNERSHIP IN AUSTRALIAN FOOD PROCESSING: THE 1995 SALE OF THE PACIFIC DUNLOP FOOD DIVISION

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Contemporary public debate over the Australian food industry is dominated by the argument that the local industry has the potential to become the "food bowl of Asia"; that the emergent middle classes of East and Southeast Asia provide growing export markets for value-added Australian food products. The vision of an export-oriented, value-added Australian food industry is central to the Keating Government's "Agri-Food Strategy" (Button and Crean, 1992), and has prompted the publication of a plethora of reports and studies funded by the Federal Government's Rural Industries Research and Development Corporation. However, whilst recent growth of value-added food exports to Asian markets illustrates the emerging potential for export sales (Heilbron and Larkin 1995), this development is merely one manifestation of globalisation processes in the Australian food industry. For large parts of the Australian industry dominated by branch plants of resident transnational corporations, corporate strategy still revolves about profit capture in the highly concentrated and stable domestic market place. Events surrounding the 1995 foreign takeover of the Pacific Dunlop food group exemplify this process.

On 3 August 1995 the Australian transnational corporation Pacific Dunlop Ltd announced its intention to off load its food division in a sale worth $1.1 billion. This decision saw the Australian ice cream and yoghurt operations of Peters and Yoplait sold to the Swiss-owned Nestle Corporation (the world's largest food company), and the Edgell Birds Eye vegetable processing and Herbert Adams baking operations sold to the J.R. Simplot Corporation of the United States. With this sale, iconic brand names in the Australian food industry such as Edgell's, Four'n'Twenty, Peters, and Nanna's went into foreign ownership for the first time.

The business press interpreted this sale almost wholly within the context of the 'Asian food bowl' model. Because Pacific Dunlop was seen as an exemplar of an Australian company with an explicit strategy to build exports to Asia, the sale of its food division to foreign interests appeared to be a backward step for the Australian food processing industry. Institutional investors were at the brunt of much of this frustration. Their alleged impatience with the pace of Pacific Dunlop's strategy was argued to have given the company no choice but to sell its food business. The Chairman of CSR Ltd, one of Australia's largest food processing companies, bemoaned that "one of the great pities of the Australian system is that institutional investors generally are too impatient in terms of performance" (Hoyle, 1995:8). The Australian Financial Review also weighed into the debate, editorialising that "the [Pacific Dunlop food] business was not going the wrong way but.. major institutional shareholders not only failed to properly understand it but failed to adopt a long enough time horizon" (Australian Financial Review 1995). From the trade union movement's point of view, the Pacific Dunlop sale imperilled the good working relationship that had been built between Pacific Dunlop management, the ACTU, and the key unions in Pacific Dunlop plants. Immediately following the announcement, the Prime Minister, the President of the ACTU and the Federal Treasurer criticised the investment environment which led to Pacific Dunlop's sale.

Through this chain of reporting, a narrative was established in which a myopic investment community cut down an Australian company on the verge of export success, to the detriment of Australia's strategic economic interests. As I have earlier argued (Pritchard 1994), short-termism in financial markets is a crucial ingredient that has driven recent restructuring of Australian capitalism. To this extent, the thesis of an impatient institutional investment climate rings true. However in the case of the Pacific Dunlop sale, this narrative of economic blame is simplistic. It both fails to fully understand the role of exports and export potential within the Pacific Dunlop food group (which are more modest than the business press would like to believe), and transfers responsibility and blame for the sale from Pacific Dunlop management to the investment community in a way which is inconsistent with the history of Pacific Dunlop's investment in food. This paper argues that the attraction of the Pacific Dunlop food group to its new foreign owners does not lie pre-eminently in opportunities for export growth, but instead rests on the company's ownership of key brand names in the domestic Australian market place. In making this argument, this paper highlights the underlying logic of the dominance of foreign ownership in the Australian food sector.

Foreign Ownership and Global Capital

In the late 1970s and early 1980s, research by Wheelwright, Crough and Wilshire (1980) and Crough and Wheelwright 1982) described Australia's economy as a 'client state', subject to the whims and strategies of foreign transnational investors. It was argued that this dependency undermined Australia's economic sovereignty, placing indigenously-generated economic activity in a more marginal and precarious position. These arguments correctly identified the long term dependencies and constraints associated with foreign ownership (as evidenced in the subsequent net income deficit on the current account balance: Heywood and Tamashke, 1991), and have been followed up in practical terms by research undertaken by Greg Crough for the Australian Taxation Office on transfer pricing by foreign transnational corporations (House of Representatives Standing Committee on Finance and Public Administration 1989; Crough *personal communication*). Yet for all the merits of these arguments, the approach of Wheelwright et. al. has been legitimately criticised for its perhaps unwitting reliance on the Australian nation-state as the fulcrum of analysis, in the process taking away attention from the generalised process of capital's globalising tendencies (Bryan 1995).

In the late 1980s, political economists and economic geographers refined the issues raised by Wheelwright et. al. into more generalised analyses of capital's circulation in a globalising economy. Buoyed by research into the impacts of globally mobile finance capital in restructuring the

Australian economy (Daly 1984), attention was refocussed on the relationships between the nation-state and different fractions of capital. The framework enunciated by Bryan (1987) explores globalisation processes through linking four capital fractions (national; investment-constrained; market-constrained; global) to the three circuits of capital circulation (production; realisation; reproduction). The great merit of this approach is the way it perceives globalisation as an outcome from competition between individual capitals within a general process of capital circulation and accumulation. In short, it emphasises globalised restructuring in terms of the underlying pressures for capital accumulation, and de-centres individual nation-states (and the distinction between 'foreign' and 'local') within the framework of analysis. More recently, Fagan and Le Heron (1994) have further developed this approach, developing links between globalisation processes and the roles of pre-existing geographies of production.

These theoretical contributions pave the way for re-interpretations of the debate over foreign ownership of the Australian economy. Rather than the origins of capital being a crucible for debate, these theoretical works suggest a framework which is more centrally concerned with how individual capitals are positioned with the international political economy, in terms of each of their capital circuits. The political implications of this approach are to refocus attention on the nature of global capital, instead of the nationality of its owners. To give these ideas concrete expression, it is clear that an assessment of Bond Corporation's impact on the Australian economy during the 1980s (and its on-going reverberations in the 1990s) is best made from a standpoint of examining the company's position in the global economy, rather than from the standpoint of Bond Corporation being an 'Australian-owned company' with presumed differences to a foreign-owned company. Because of Bond Corporation's capacity to utilise global scope in sales, financing and profit repatriation, strategies for its Australian operations were placed explicitly in the context of a process of internal competition for funds that had little ultimate relevance to the 'Australian-ness' of the company's equity base.

These ideas are readily applied to the Australian food industry. The impact of takeovers such as the 1992 Arnotts-Campbells deal is that with transnational ownership, money capital made from the sale of food commodities in the domestic market place can be inserted into an international arena and thus open opportunities for global investment and tax strategies. Often, ownership of key brand names rests offshore, enabling the owners of domestic operations to establish royalty streams that can be used to minimise Australian taxation payments. Gaining access to this type of global mobility in the circuit of money capital has particular strategic importance given the relatively modest profit margins that characterise the food sector. An appreciation of this point is crucial for an understanding of the background to Pacific Dunlop's entry into, and exit out from, the Australian food sector.

Pacific Dunlop's Move Into Food

Established in 1893, Pacific Dunlop has become one Australia's most powerful industrial conglomerates. The company built core interests in rubber, automotive parts, batteries, medical technologies, telecommunications cables, clothing and footwear (Blainey 1993), and in the one hundredth anniversary of its founding was ranked the world's 326th largest company (Fortune, 26 July 1993). In the 1980s, the company entered into a rapid growth phase on the back of its ownership of valuable brand names, and by the end of the decade was looking at developing a new area of investment with strong growth potential. After an internal investigation of investment options, the company chose food processing as the field for its next main acquisition. This decision was based on the premise that Pacific Dunlop's expertise in managing brand names could be used to catapult processed foods into the emerging markets of the Asian middle classes.

The opportunity for Pacific Dunlop to make a major food acquisition was opened in May 1991, when the entrepreneurial investment company Adelaide Steamship (Adsteam) collapsed through an excessive debt burden. Adsteam had been one of the fastest growing Australian public companies of the 1980s, building a conglomerate empire through access to global financial markets. One of Adsteam's core investments was a 62 per cent investment in the food processing company Petersville Ltd. Adsteam's collapse precipitated a forced sale of this investment, in order to meet its own debt obligations. On 12 July 1991 Pacific Dunlop launched a $390 million takeover bid for Petersville, which was effectively completed within six weeks. Combined with Petersville's $536 million holdings of debt, the Pacific Dunlop bid valued the company at $926 million.

Petersville operated three main food divisions: Australian United Foods (Peters ice creams); Edgell Birds Eye (Edgell and Birds Eye canned and frozen vegetable and seafood products) and Petersville Bakeries (Four'n'Twenty, Nanna's, Herbert Adams, Big Sister). Petersville was formed as a single company in 1961 through a merger of the family-owned Edgell company, and the Peters ice cream business. Adsteam had taken majority control of Petersville in 1982 following an ill-fated takeover of the company eighteen months previously by H.C. Sleigh Ltd.

For all its size and possession of key brand names, Petersville was perceived by investors as a generally under-performing and slow-growth company. The problem for Petersville was that its strongest selling food lines (eg, Edgell canned vegetables, Four'n'Twenty pies) were in low growth sections of the food industry, and that it had poor exposures to the high growth segments of the market (eg, pasta sauces, health foods, chilled meals). Adsteam had little incentive to rectify this situation, viewing Petersville as a so-called 'cash cow' (a means to capture and exploit cash flows). In terms of Bryan's framework, Adsteam's strategy hinged on Petersville generating profits from the national circulation of production and commodity capital, for their insertion globally as money capital (Figure 1). At the end of the 1980s, this strategy began to become unstuck. Increased import penetration into some of its core products (especially canned tomatoes and frozen sweet corn) and the effect of the recession in depressing price levels, caused an accumulation crisis within Petersville that saw EBIT (earnings before interest and taxation) fall from around ten per cent of sales revenue in 1989, to approximately three per cent of sales revenue in 1991 (Gottliebsen, 1992: 64; Shoebridge, 1995: 46). For these reasons, Pacific Dunlop's purchase of Petersville was generally regarded by share market analysts as a poor strategic decision.

Figure 1: Petersville's Strategic Position Under Adsteam Ownership (1982-91)

	National Circulation	International Circulation
Production Capital (circuit of production)		
Commodity Capital (circuit of realisation)		
Money Capital (Circuit of reproduction)		

Note: shaded boxes indicate the primary geographical manifestations of capital's circulation, in each of its three forms (as production, commodity and money capital). Based on ideas in Fagan and Le Heron (1994)

Figure 2: Pacific Dunlop's Strategy for Petersville

	National Circulation	International Circulation
Production Capital (circuit of production)		
Commodity Capital (circuit of realisation)		
Money Capital (Circuit of reproduction)		

Note: shaded boxes indicate the primary geographical manifestations of capital's circulation, in each of its three forms (as production, commodity and money capital). Based on ideas in Fagan and Le Heron (1994).

Selling a Strategy: Pacific Dunlop 1991-92

Pacific Dunlop management responded to the lack of investor confidence in the Petersville acquisition by setting out an ambitious strategy to restructure the company. The essence of this strategy can be seen by comparing Figures 1 and 2. Pacific Dunlop hoped to internationalise the circuit of realisation (making Petersville's production export-oriented), and returning these profits in the form of money capital for reinvestment within Australia. These ambitions were promulgated by Pacific Dunlop management with extreme zeal. The corporate magazine *Business Review Weekly* reported that Pacific Dunlop's managers "believe they can transform every aspect of Petersville because business conditions in Australia offer a once-in-a-lifetime opportunity. And if they can't, they will replace Australian industry with New Zealand or Asian activities" (Gottliebsen, 1992: 61).

Table 1: Pacific Dunlop Food Group, Forecast and Actual Earnings, 1990 - 1994

Year	Pac Dun Forecasts, 1991 ($M)	Actual Results ($M)
1990-91	–	29
1991-92	69	48
1992-93	89	67
1993-94	100	35

Note: 1993-94 actual result differs from the result published in Pacific dunlop's annual report because it excludes the contribution from Plumrose.

Source: Pritchard (1995) and Pacific Dunlop Annual Reports, various years.

The cornerstone of Pacific Dunlop's campaign to generate investor support for the Petersville acquisition was a set of forecasts that suggested the Petersville group would be returning $100 million in EBIT by 1994-95 (Table 1). This performance would be generated by an aggressive capital investment strategy and a forecast increase in the size of export sales to Asian markets from $5 million in 1991, to over $300 million by 1995 (in 1991-92, Petersville total sales turnover was approximately $800 million). The campaign to win over investor support was complemented by a series of attacks on farmers, unions and governments, that attempted to display Pacific Dunlop as aggressive managers. Farmers were accused of being inefficient, unions were accused over issues such as weekend penalty loadings, and governments were attacked over the alleged slow pace of micro-economic reform. In

April 1992, Pacific Dunlop announced the closure of two processing plants (at Cowra, NSW and Bairnsdale, Victoria), as a potent symbol of its intended determination to force the pace of change or close down Australian production. These plant closures saw the loss of 680 full-time and seasonal jobs and the use of imports by Pacific Dunlop to compensate for lost domestic production. Despite these efforts, the Pacific Dunlop share price fell from a peak of $5.40 around the time of the Petersville acquisition (August 1991) to a low of around $4.40 a year later.

Pacific Dunlop's Change of Heart, 1993-95

By 1993, the failure of Pacific Dunlop management to meet its forecast earnings targets encouraged a qualitative shift in the company's public dealings with unions, farmers and governments. In terms of unions, Pacific Dunlop stopped its calls for wage cuts and attempted to develop a less antagonistic relationship with its workforce. Despite the loss of over 1,500 jobs in former-Petersville plants in their first two years of Pacific Dunlop ownership, unions had been generally supportive of Pacific Dunlop's goal of increasing exports from its Australian operations and (led by the ACTU) had attempted to steer the company towards the adoption of 'best practice' principles. Throughout 1993, Pacific Dunlop developed 'best practice' strategies for most of its production plants. This shift can be conceived in terms of a change from what Curtain and Mathews (1990) label a "cost minimisation approach" to restructuring, towards a "productivity enhancing approach". This changed strategy was most visibly expressed at an ACTU-sponsored food industry conference held in Melbourne in March 1995, where the manager of Pacific Dunlop's food division publicly acknowledged the supportive role played by unions in the company's plants.

Pacific Dunlop management also attempted to build more constructive relationships with farmers. In Tasmania, Pacific Dunlop dropped its insistence that potato growers accept a substantial price cut for the 1992-93 season (following a forced price cut of $17/ tonne for the previous season), and increased its participation in farmer-initiated productivity programs. Although relationships with farmers remained strained, these developments nonetheless suggested a changed tack by Pacific Dunlop management. In terms of government, the manager of Pacific Dunlop's food division became a member of the Federal Government's tripartite industry body (the Agri-Food Council) and actively participated in a sectoral program for the horticultural industry.

These changes to Pacific Dunlop's approach reflected a repositioning of the company's use of space. Pacific Dunlop's initial 'crash through or crash' strategy of transforming Petersville into a globally-oriented food processing company explicitly down-played its linkages to the Australian economy. In public statements during 1991 and 1992, Pacific Dunlop attempted to portray an image of their Australian operations as expendable: that the company could readily close Australian factories in favour of new ones in offshore greenfields sites. Indeed, in 1992 the company made it known publicly that its new state-of-the-art french fries plant at Ulverstone, Tasmania, was built to modular design and could be expediently disassembled for relocation elsewhere, if local actors did not meet the company's expectations. However, from 1993 onwards this attempt at generating a footloose geography was replaced by a more solid commitment and attachment to its existing Australian production facilities and its Australian consumer base. This reflected both an appreciation of the value of the company's sunk costs in Australia, and the fact that the company gained a substantial commercial advantage from the fact that its products were perceived by Australian consumers as locally made and were of generally high quality. Responding to this, the company launched a series of television advertisements in 1993 highlighting its Australian links. Most notably, it utilised the Australian pop singer John Farnham and a number of Australian Olympic athletes to push the Edgell brand as Australian-made. Ironically, this campaign was undertaken within a year of the company having closed its Cowra asparagus and tomato canning facilities, and replacing these Australian products with imports.

These changes were also accompanied by a weakening of the company's export goals. By 1993, the ambitious goal of $300 million in exports to Asia by 1995 had been watered down to $100 million. Moreover, although the company did achieve some path-breaking export orders during this time (including a lucrative export order for Peters ice cream from a major Japanese purchaser), it was apparent to most observers that the goal of $100 million in exports was still excessively optimistic. Certainly this was the view of most stock market analysts during this period, and the dramatic share price slide of Pacific Dunlop during this period was intimately related to concerns over its food division.

French Fries Production: a Case Study of Pacific Dunlop's Reliance on the Domestic Market

To illustrate the difficulties and shortcomings of Pacific Dunlop's initial strategy to rapidly globalise its food operations, it is instructive to examine the case of the company's Tasmanian french fries operations. This case is relevant because demand for french fries in Asia is currently growing by 25 per cent annually (Pritchard, 1995: 329), and Pacific Dunlop management banked heavily on their Tasmanian operations being able to capture part of this growth. At the time of the Pacific Dunlop takeover of Petersville, the company converted approximately 140,000 tonnes of potatoes annually into french fries for the domestic market. French fries production contributed approximately 60 per cent of the Edgell Birds Eye division's turnover. A decision by Pacific Dunlop in 1992 to commit $35 million towards constructing a new processing plant at Ulverstone was predicated on export growth providing a doubling of this output, and consequently generating substantial economies of scale.

However, Pacific Dunlop's assumptions on the speed and capacity for restructuring of the Tasmanian potato sector proved seriously awry. Influenced by advice from the management consulting company the Boston Consulting Group, Pacific Dunlop initially perceived the Tasmanian potato growing industry as highly inefficient and ripe for restructuring. The results of the Boston Consulting Group's research on the sector suggested that Tasmanian potato growers were paid more than double the price received by growers in the state of Washington, USA (their major international competitors), and that their margins per tonne of potatoes were roughly three times those received by potato growers in Washington. This encouraged the perception by Pacific Dunlop management that squeezing growers' incomes provided a relatively easy route to improving the international competitiveness of Tasmanian potato processing. However, this assumption proved misleading because of the intervention of three key factors that had been overlooked.

First, Pacific Dunlop's advice on the relative size of growers' prices and margins was poor. Growers immediately disputed the findings of the Boston Consulting Group analysis of their industry, but Pacific Dunlop ignored these arguments. However, the completion of a further benchmarking study in late 1993 (co-ordinated by the Tasmanian Department of Primary Industries and Fisheries [TDPIF]: Laurence and Henderson 1993), revealed that the Boston Consulting Group's findings significantly overstated the size of growers' margins. The TDPIF study concluded that Tasmanian growers' margins were only 25 per cent higher than their US competitors (Pritchard, 1995: 336). This finding took the steam out of Pacific Dunlop's campaign to force price cuts on growers. From 1993 onwards, Pacific Dunlop's relationship with growers placed increased attention on building productivity (and therefore the capacity for future price reductions), and relatively less attention on imposing direct price cuts.

Second, Pacific Dunlop seriously exaggerated the extent to which increased french fries production was possible. In planning a potential doubling of production capacity in its Ulverstone production site, Pacific Dunlop assumed simplistically that the Tasmanian growing sector would be able and willing to satisfy this increased demand. Meeting the ultimate production capacity of the new Ulverstone plant would have involved an increase in the area sown to potatoes in Tasmania of 60 per cent (Pritchard, 1995: 337). Pacific dunlop's assumption that farmers would satisfy this increased demand for potatoes paid little heed of the complex human geography of Tasmanian agriculture (Miller 1993). Farmers on Tasmania's north west coast are faced with a variety of cropping and livestock options, and tend to complement contract potato farming with contract cropping of other horticultural products, and dairying. To satisfy increased demand for potatoes would involve a fundamental shift of many farm systems from farm diversity, to monoculture. Yet without Pacific Dunlop offering an increased contract price for potatoes (in fact Pacific Dunlop wanted to reduce contract prices), it was doubtful that the company could have persuaded farmers to make this shift.

Third, Pacific Dunlop took insufficient attention of the competitive impediments to developing an internationally-oriented potato production system in Tasmania. To capture contracts for the supply of french fries to McDonald's and other fast food chains in Asia, Pacific Dunlop would have had to have won market share from the US-based company J.R. Simplot (the company which eventually purchased Edgell-Birds Eye). In the early 1990s, Simplot's American factories were supplying over 95 per cent of McDonalds' Asian french fries needs, and taking market share from Simplot would have been extremely difficult. Simplot and McDonald's have a strategic partnership at a global scale. For example, when McDonald's opened its first store in China in 1992, it arranged with Simplot to enter into a joint venture with a Chinese partner for the exclusive supply of french fries to McDonald's Chinese operations. In 1994, McDonald's had over 20 restaurants in China, with plans to open a further 600 by the year 2000. Simplot is already positioned to satisfy this demand for french fries, with capacity already in place inside China to service over 200 restaurants (Pritchard, 1995: 338-40).

In interviews with the author during 1993 and 1994, Pacific Dunlop executives asserted that McDonald's was intent on diversifying its french fries supply away from Simplot's American facilities, and this would provide opportunities for exporting from Tasmania. Yet there was little prospect that McDonald's contracts would have provided the volumes necessary to reorient the Tasmanian potato sector towards exports. Simplot's Idaho, Oregon and Washington potato processing plants possess key advantages over Tasmanian product. On the one hand, shipping routes from Tasmania to Asian ports suffer a substantial cost disadvantage compared to shipping costs out of Seattle, because of cut-throat competition and scale economies on US-Asia shipping routes. Further, Simplot has substantial over-capacity in its US processing operations, and has in recent years been in a position to engage in predatory pricing strategies to hold onto its key markets (Laurence and Henderson, 1993: 13). In this competitive environment, it was likely that Pacific Dunlop's role at best would have been as a residual supplier of french fries to Asian markets, which would have meant that its

Tasmanian operations would have remained pre-eminently oriented to supplying domestic demand for french fries.

Accordingly, at the time of their 1995 sale Pacific Dunlop's Tasmanian potato operations remained almost wholly domestically oriented. The price paid to Tasmanian potato growers by Pacific Dunlop ($204 per tonne) was virtually unchanged in real terms from that paid a decade previously. The vision of the Tasmanian potato sector being an internationally oriented production complex has remained ephemeral. Whilst a supply arrangement for Asian markets was indeed announced by J.R. Simplot as one of its earliest actions upon purchasing these operations in August 1995, volumes are modest and it remains the case that the overwhelming proportion of potatoes grown in Tasmania are consumed domestically, rather than being exported.

The Narrative of Short-Termism and the Sale of Pacific Dunlop's Food Assets

At the outset of this paper it was noted how a narrative to explain the sale of Pacific Dunlop's food assets was generated in which the "culprits" were institutional investors, oriented by short-sighted investment strategies. In light of the above analysis of Pacific Dunlop's foray into the food sector, and the specific case of its Tasmanian french fries operations, it is timely to review the arguments underpinning this chain of reporting.

Underlying the narrative of myopic institutional investors was an assumption that by 1995, Pacific Dunlop was on the verge of achieving goals it had set in 1991: to invest successfully in a new core business sector that would propel the conglomerate into a fresh era of expansion. Palpably, this was not the case. By 1995, the company's vision for its food group was much more modest than that enunciated in 1991. Over 1991 to 1995, the food group's internal rate of return to Pacific Dunlop averaged seven per cent annually: a rate of profit that was hardly spectacular (Porter, 1995). Yet in public comments both before and after the sale of the food group, Pacific Dunlop management argued that this growth was a solid basis for the company's long term aspirations. In short, between 1991 and 1995 Pacific Dunlop had shifted the goalposts for measuring the success of its food group.

The fact that Pacific Dunlop was forced to change its vision and goals for the food group reflects initial poor advice and planning. The Edgell Birds Eye, Peters, and Herbert Adams divisions that comprised the Pacific Dunlop food group may have been sound businesses which were benefiting (especially after 1993-94) from improved management and capital spending, but they were lacking the growth potential that Pacific Dunlop management had conditioned the market to expect. Consequently, the fact that institutional investors sold down Pacific Dunlop was less a result of their own alleged short-sightedness, and more a result of Pacific Dunlop management's initially inappropriate vision for the group.

Lessons of the Pacific Dunlop Sale for the Australian Food Sector

The shift in Pacific Dunlop's vision and strategies for its food group is representative of a changed position of food processing industries in the global capitalist economy of the 1990s. Throughout the post-1945 era, food companies generally offered investors low but relatively reliable rates of return. In the United States, the food sector's average real rate of return from 1948 to 1987 was the fourth lowest of twenty manufacturing industries (Blair and Litan, 1990: 62) and the sector was characterised as a "technologically mature industry...[with] rather sluggish growth" (International Labour Office 1989: 1). Transnational food companies such as Kellogg, Heinz, Kraft, Campbell and Bunge were cash cow companies that generated relatively modest profit rates on large turnovers. Because of the importance of food for human survival, food companies have also tended to be relatively less responsive to business cycle fluctuations (compared to industries such as construction), providing investors with important buffers to recession.

The financial climate of the 1980s transformed many food companies from being relatively unattractive acquisition targets, to becoming key strategic investments. With a debt surge and greater economic volatility, food companies' capacities to generate large cash flows and be comparatively protected from economic downturn made them highly prized assets. In the United States during the 1980s, the food industry had the second highest rate of return to investors of 24 different industrial sectors (Fortune 1990: 228). This attractiveness was reflected in a number of highly leveraged takeover bids for key food companies, including the 1985 takeover of General Foods by Philip Morris (US$5.6 billion), the 1989 takeover of Pilsbury by Grand Metropolitan (US$5.8 billion), the 1988 takeover of Kraft by Philip Morris (US$12.6 billion), and the world's largest ever takeover, that of RJR Nabisco by Kohlberg Kravis Roberts (US$24.7 billion) (Pritchard, 1994: 6). Overall, the incidence of junk bond-financed takeovers in the food sector during the 1980s was six-times larger than the sector's relative contribution to the US economy (Yago, 1991: 47). In Australia, the attractiveness of food and beverage companies was best illustrated by the takeover battles for Goodman Fielder in 1988 and 1989, and the strategic investments of Elders IXL in Carlton and United Breweries, and Bond Corporation in Castlemaine-Tooheys.

In the 1990s it has been widely recognised that many of the 1980s takeovers were over-priced, reflecting unrealistic assumptions of earnings potential. The relatively depressed market climate that has been a feature of much of the 1990s does not provide the kind of strategic benefits from investment in food, as was the case in the 1980s. In terms of market valuations, food companies have been great losers in the 1990s. The much celebrated instance of "Marlboro Friday" (23 April 1993, when share prices of food and tobacco companies dived sharply in response to Philip Morris' decision to cut the price of Marlboro cigarettes: Giles 1993) suggests that in the 1990s, food companies have been repositioned within the capitalist investment economy as a relatively unattractive profit sector. This is reflected in the fact that, between May 1992 and May 1995, the increase in the Australian Stock Exchange Food and Household Goods Index was less than half that of the All Industrials Index (Australian Stock Exchange data, available from author). The change in market sentiment towards the food industry is a key reason for the fact that institutional investors took a dim view of changes to Pacific Dunlop's visions for its food group.

In this financial environment, the strategies of large food companies have tended to emphasise the creation of economies of scale and market power in core product areas. This contrasts to the 1980s, when a number of companies with non-food interests moved into the sector (Fagan and Webber 1994). In Australia, a number of key food sector acquisitions in the 1990s have involved transnational food companies expanding core product interests through Australian acquisitions (Table 2). These foreign investors generally preface the reasons for their investments in terms of export opportunities: the 'Asian food bowl model'. Yet as illustrated in the well-known instance of Arnotts, the export performance of the company under its new American owners has been rather less spectacular than what was being suggested during the time of the takeover in 1992. If nothing else, this situation arises because in a business like Arnotts, profitability is much more assured in the highly concentrated domestic market place, than in the volatile and expensive conditions associated with building a business in Asia. This reflects the simple fact that the capture of market power is associated closely with increased profit opportunities. Whereas ratios of net profits to sales in the food sector are commonly around five percent, Kellogg's Australian operations (with 50 percent of the breakfast cereal market) has a ratio of almost eight percent and Arnotts (with 70 percent of the biscuit market) has a ratio of over 13 percent (1993-94 figures; Shoebridge, 1994: 77).

Table 2: Key Food Sector Foreign Takeovers in Australia in the 1990s

Year	Target	Acquirer
1991	Bundaberg Sugar	Tate & Lyle (UK)
1991	Tooheys-Castlemaine (Bond Corporation)	Lion Nathan (NZ)
1991-92	Aust. Meat Holdings (Elders IXL)	ConAgra (USA)
1992	Arnotts	Campbell (USA)
1992	Metro Meats (Adsteam)	CITIC (China)
1992-93	Smiths Snackfoods (CC Amatil)	United Biscuits (UK)
1995	Peters (Pacific Dunlop)	Nestle (Swiss)
1995	Edgell-Birds Eye/ Herbert Adams (Pacific Dunlop)	JR Simplot (USA)

Source: own research.

Implications of Nestle and J.R. Simplot's Purchase of the Pacific Dunlop Food Group

At the time of writing it is not known what strategies Nestle and J.R. Simplot will bring to their new Australian food businesses. However, public commentary by both mainstream media analysts and by corporate executives has emphasised - virtually to the exclusion of all else - the 'Asian food bowl' model as these companies' central strategies. Whilst Asian exports growth of the ex-Petersville operations will most probably occur under Nestlé and Simplot, this attention fails to appropriately consider the dominance of domestic sales as an area of profitability. In 1994-95, exports comprised less than five percent of the Pacific Dunlop food group's turnover, and even the most optimistic scenario denies that exports would exceed 15 per cent of sales over the next few years. Consequently, the Pacific Dunlop food group's core asset for both Nestle and J.R. Simplot is ownership of key brands in the domestic market place. Regardless of future export outcomes, sales to Australian consumers will remain the main source of turnover and profit for these operations for the foreseeable future. Consequently, the key issue arising from Nestlé and Simplot's purchase of the Pacific Dunlop food division is the impacts foreign ownership will have on economic power and concentration in the domestic Australian food processing industry.

This is best illustrated in the case of Nestle's acquisition of Peters. With this purchase, Nestle increases its Australian sales by 25 per cent, to $1.7 billion. Prior to the purchase of Peters, Nestlé operated 14 separate plants in Australia and employed over 4,200 persons. The Peters purchase gives the firm an additional three plants and an additional 800 employees. The dairy-based interests of Peters complements Nestle's pre-existing operations in confectionery, where milk is a major input. Thus, Nestle's acquisition of Peters therefore represents a significant strengthening of its economic power in the Australian market place, including its ability to purchase inputs in bulk and co-ordinate profit strategies within and across sectors.

Since taking over Peters, Nestlé has closed the company's second major production site, in Brisbane, and has concentrated production in its Mulgrave site, in suburban Melbourne. In November 1995, Nestlé announced an intention to invest $70 million in Mulgrave over the period 1996-99 (Cummins 1995: 29). Whilst the company has been keen to promote this initiative as part of a strategy to boost export sales, it is more likely that the primary beneficiary of the investment will be Peters' flagging domestic performance. Over the past few years, Peters has lost considerable ground to its main rival, the Unilever-owned Streets. Moreover, in ice cream at least, the 'Asian food bowl' model is compromised by the fact that although exports of ice cream to affluent Asian markets is indeed a rapidly growing sector, the vast bulk of increased Asian ice cream consumption will be satisfied by production within Asian countries themselves, leaving Australia as an exporter of milk powders rather than finished ice cream products.

Given these points, it is likely that Nestle's strategies for its Peters operations will be similar to those the company has predominantly used to date in the Australian market place. These strategies have rested on its market dominance in key product segments, particularly confectionery and coffee. In the case of coffee, Nestlé's "Nescafe" and "International Roast" contribute over 70 per cent of the Australian instant coffee sales (Prices Surveillance Authority, 1994: 27). Through market dominance, Nestle is able to exercise substantial power and attain profit rates far exceeding those existing in other food sectors. For example, between 1991 and 1993 Nestle's total coffee production costs fell by six per cent (largely through a fall in the world price for green coffee beans), but probably because of the company's market dominance it was able to avert passing on the majority of these cost price reductions and was thus able to increase profits by eight per cent (Prices Surveillance Authority, 1994: 53). Moreover, concentration of the instant coffee market has meant that, in 1991, this sector's ratio of earnings before interest and tax (EBIT) to assets was 77.7 per cent, compared to a food industry average of just 16.8 per cent (Prices Surveillance Authority, 1994: 54). This example highlights the crucial role played by market power in lifting profitability in the food sector.

Conclusion

In public debate over the Australian food industry, the alleged potential for the nation to become the food bowl of Asia is given overarching prominence. Over the past few years, the rapid growth in exports to Asia of value-added foods (admittedly from a low base) is evidence of the argument that satisfying Asian food demand is (and will likely continue to be) a key theme in the restructuring trajectory of the Australian food industry. However, globalisation in the Australian food industry is an uneven process. Increased value-added exports to Asia is not an inevitable consequence of the participation of global capital in the Australian food industry. Different companies will adopt different strategies for profit capture, and the key impact of globalisation might well be to further entrench economic power in the domestic market place in the hands of global capital, with consequences for competition, the vulnerability of local operations to offshore decision-making, and the capacity for local production to be incorporated within international profit shifting schemes.

This paper's attention to the domestic market as an arena of profit capture and restructuring highlights important policy issues that have seemed to have been neglected whilst public debate on the industry has been focused on exports and Asia. Debate over issues such as the deregulation of statutory marketing authorities, weakening of country of origin labelling, and the funding of food import inspection requirements have all been debated in the context of an agenda to maximise opportunities for Australian food exports in Asia. Understanding the longer term impacts of these kind of changes requires a comprehensive research effort by political economists and economic geographers into the changing relationship between capital and food sector processes of valorisation, within the context of an uneven restructuring of the Australian food industry.

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