

PKR leader explains why NFC is not viable

MalaysiaKini.com

February 8, 2012

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INTERVIEW Economics alone would prove that the embattled National Feedlot Corporation (NFC) will not be able to make the National Feedlot Centre project a success, says PKR director of strategy Rafizi Ramli.

In an interview with Malaysiakini last week, Rafizi explains why the project is not viable, and he sees it as a "disguise" for NFC's owners to gain access to the RM250 million soft loan.

The relevant sections of the interview transcript are as follows. Content has been edited for clarity and language. This is the first of a three-part interview.

You've seen NFC's operations in and out. What do you think is the main weakness that it cannot meet the target?

I don't think they ever meant to do the cattle-rearing business as their main business. I don't think they want the tender to do this because they want to support the National Feedlot Policy.

It was very clear by the way they set up the operations and how the money was transferred to other operations and that the focus was placed on other operations.

I think they just used the National Feedlot Policy to get the RM250 million easy funding. Where on earth can you get a RM250 million loan without any collateral - and I was told without any personal guarantee - with extremely favourable repayment terms at two percent interest rate? Nowhere.

When the whole intention was to get the RM250 million and use the money as seed funding for family businesses, I think it went haywire from that point onwards. The NFC operation in Gemas is just part and parcel to justify the RM250 million.

Most of the money was pumped into the restaurant and food business. We have not got the money trail, and I'm sure if an audit is done, they would find a lot of money going to Singapore where they have a supermarket operation as well as a restaurant operation. A lot of the money was also spent on buying assets.

What kind of assets?

Condos, cars and pieces of lands and so on, and those were the ones we have uncovered so far. We don't know how many more they have bought, either under the name of the associated companies or by the strength of their ownership of these companies, by having control over a fund of RM250 million.

That in itself would convince banks to give them private loans to buy assets under their names. So if they do an asset declaration (chuckles) it would be interesting to see the kinds of assets Datuk Seri Shahrizat (Abdul Jalil) and the family has.

We know how financial institutions work. If you have control, and even if your name is not placed as the direct shareholder of a company, but if you can prove that you have effective control over a RM250 million fund, that in itself is a good guarantee for banks to give you loans to buy many properties.

I get the feeling that the NFC operation in Gemas, the actual feedlot operation, is just a disguise. The rest is about the more glamorous part of the business - about property investments, upmarket food and beverage business.

So when you get people who just get the contract and funding not for the actual purpose of that policy, of course it's doomed from the very beginning.

Don't the other subsidiary businesses exist to support the core feedlot business?

They claim that. Two flaws with that argument. Of course, they set up these companies as part and parcel of the overall NFC operation but they are set up as companies wholly owned by themselves. If it is part and parcel of NFC, NFC must have control of these companies.

If anything happens, at the end of the day these are their companies and NFC or the government for that matter has no recourse to get back the assets.

Number two, why the need to set up so many companies when you can do all these things within the one company. You've got Real Food Company, National Meat and Livestock, Argoscience and so on.

I have to admit the National Feedlot Policy is clear. They have to meet (the target of) 276,000 cows per year and need to push this out to the market throughout the country in order to achieve the target of reducing imports by 40 percent. That's very clear. That means having to build a distribution network.

You go and ask any retail company, not just in meat. They don't go and set up so many operations. Sometimes it is just a division or marketing section within the company. Both arguments that this is part and parcel of NFC, if you look at that perspective, are not valid.

But most important, you can't be talking about building a distribution network or marketing meat products as they claim to do, when they don't have cows. You need to have exactly the right number of cows necessary before you can do start doing this.

The reduction of target is something the government needs to answer. From 276,000 cows a year to only 3,000 cows a year. When you start having an operation with 3,000 cows per year, automatically all the other questions about distribution, marketing superior beef and opening restaurants from beef products don't make sense because you need an economically viable operations first.

If I was to audit the company, these are among the first questions I ask because it is public money. The government should have cut (the funding), and made sure they have the feedlot first before they do these other things.

How difficult is it to build a distribution network? We are talking now about a huge demand for local beef, especially if the price is competitive. It's not like it's a rocket science product that needs to be marketed. We have wet markets throughout Malaysia, it's not difficult.

The model they are trying to use had been done in the 1970s and the early 1980s by a government agency called Maju Ternak. So it's not as if they are reinventing the wheel.

But because the cows are not there, and because the operation is expensive, I think they use this as a justification to spend more time and money on other things.

They did say the reason they did not slaughter so many cows is because they didn't have the abattoir and they blame the government for not building the abattoir.

They have RM250 million! Why don't they build their own big abattoir?

They are also blaming AVT, the company which is supposed to build the infrastructure and the abattoir.

I sat down with the person who claimed that the idea originally came from him. I went through files. He was working on it for three or four years. Whether it was his idea remains to be seen.

I went through his economics and back then, around the same time the economics of the project were done and awarded to NFC, he thought he only needed RM25 million, and that included a full-fledged operation including the abattoir and so on.

The same cattle targets?

For that operation in Gemas, yes, about 50,000 heads of cattle. The 276,000 heads of cattle that NFC is supposed to deliver is also through 310 satellite farmers they're supposed to cultivate.

So on that basis, they can go and blame anyone under the sun, but the fact of the matter is they have RM250 million. They had full control of the money and if they were serious about meeting the target they would have used everything within their means to make sure that all this was set up.

But then, let me ask you this question: Did you know that it was only lately that they started quite aggressively buying cows? Between 2008 and 2011 there were only two batches of cows coming in. The first batch in 2008 and the next one in 2010. In the first batch, lots of them died along the way but some of them survived until the next batch in 2010 came.

The problem comes back to the fact that they don't have enough cows. The fact is in two years, they only brought in two batches of cows. One has to wonder about the seriousness of their operation.

I personally think these are all excuses. They had the money, and if they had enough cows and they needed to be slaughtered, they could always sell the cows to other bulk buyers who can go on and slaughter the cows themselves. Not a problem.

That's how orang kampung and the meat industry work. People from say Kedah tak cukup lembu, go there and say I want 20 cows, they buy 20 cows and balik sembelih tempat dia lah. So what is the big deal about the abattoir?

The real big deal is because they didn't have enough cows.

How many heads of cattle were brought in in the first two batches?

The first one was about 4,000-plus, the second one was about 1,000-plus... They bought more from Thailand, etc, so they may have more than that now.

NFC CEO Izmir (Salleh) said that, well, it's a loan and if they squander it, their family will be ruined for generations. Why would they do that (squander the loan)? It's a compelling argument.

Number one, we have had so many instances of this. A lot of money was pumped to crony-related entities or national companies, which in turn was given to cronies for control. We kept on writing them off and we kept on bailing them out without any personal accountability by these people.

Eric Chia (of Perwaja Steel) went away just like that and Tajudin Ramli (MAS) is still living happily ever after I suppose. It has happened so many times, even the LRTs (Light Rail Transit), Renong, Vincent Tan (Indah Water), they were bailed out. RM8 billion.

These were loans and financing from the government with more onerous terms than what was given to the NFC. We have seen over the years, none of them have been brought to accountability and the public ended up carrying these massive debts.

I remember the AG's Report 2009, the amount of private debt that the public has to carry at that time - and this refers to these types of debt where money was given to these entities and it didn't work out and had to be written off - was about RM84 billion. There is RM84 billion of such loans!

Are you suggesting that the family applied for the loan, thinking, 'We'll try to make some money out of this, but if we fail, they'll bail us out'?

Precisely. (Izmir) needs to tell us and convince the public how exactly they will be ruined. Because the loan is given to NFC, NFC is a company owned by Agrosience, with a shareholding by them.

As far as financial and legal recourse, if the RM250 million is squandered, all that can happen is Agrosience will go belly-up. You just close Agrosience.

I don't think they gave a personal guarantee. When they don't and the company goes bankrupt, there is no accountability on the part of the director or the shareholders. They just lose the investments they made in Agrosience.

Number two, look at the way they have been responding to questions about their inability to meet the target. Instead of owning up, and being truthful about it, they blame everything under the sun. It's the government, the abattoir, the non-Malays, the cartel.

So you can expect that as the time goes by and they don't meet their target, and the money just dissipates and is transferred to all the other companies - these are precisely the arguments made to the government.

In the end, as was in the cases before, the government will say, "Oh, because there is a lot of technical glitches and wrong planning, the guy who did the paper at the Kementerian (ministry) was wrong, and therefore it is not NFC's fault and therefore we reach a settlement."

That is the modus operandi and that has happened before, unless Izmir (left) can convince us otherwise and put a personal guarantee of RM250 million. I'm fine if every single one of them put a personal guarantee of RM250 million, put all the assets under their name as collateral to the RM250 million, then we are talking some sense.

If it's just saying "This is a loan and therefore we are accountable" without the terms holding them to the accountability, then what's new?

From the start, there has not been much control from the government.

I think it's quite clear. What's scarier is not the condos and cows, but how RM250 million can be transferred just like that and they could go and spend and transfer money out of the country. They do two-three tiers, transfer to this company and so on.

Where is the control of Treasury, of the government? Where is the oversight role of Kementerian Pertanian (Agriculture Ministry)? This is their project. It took them about four years (to sign the agreement). The agreement was signed in 2007.

NFC claims it was because of (other) people's fault, they were late by one year. In the corporate world, you have to deliver the target, whoever's fault it is. After four years, there has not been a single intervention on the part of the government.

Except for when the project was temporarily halted for the business viability study.

Yes, but the money had then already been transferred. So far, we have not received details of what they mean by 'stopping'. Because NFC continued like normal. All the other companies related to NFC owned by the family ran normally.

In what context did the business viability study would have safeguarded the public's interest in NFC?

Noh Omar said one of the reasons the satellite farming model didn't take off was that the farmers couldn't

come up with the RM1 million capital.

Precisely, that's why from the very beginning I said they were never interested in rearing cattle. For whatever reason, and by now we know because of misappropriation and mishandling of the whole operation, the cost per head of cattle is very high. It's about RM7,000 per head of cattle.

So unless they sell these cattle for a loss to these smallholders who they want to cultivate and develop, they won't (make a profit). They make a requirement that these penternak kecil must buy at least 100 cattle from them. So if one head of cattle is RM7,000, which is their cost, not even profit, that's RM700,000 outlay not including working capital to run the small farm.

Who on earth would have RM1 million? If I had RM1 million, I wouldn't end up rearing cattle, I would do something else obviously.

This is where we question their motive and the whole business operation because it does not seem as if it is part and parcel of the National Feedlot Policy. If that is the case, very clearly, they wouldn't have bought cattle from Australia because it's very expensive. They should buy cattle from Thailand, which they are doing now, because Thailand's cattle is cheaper.

Secondly, there is a big debate about the viability of a feedlot operation because it is going to be very costly because you buy cattle that are mature. The cheapest you get them is RM1,500. The ones they get are RM3,000, plus all the costs and so on including travelling costs. When you build all of this into cost per head it becomes RM7,000.

You have to feed them to fatten them in the next two, three months and the food is quite expensive so the margin is quite small. When you ask orang kampung, it is not a business that they think is worth their time and money. What they want is breeding stock. Usually in other places they get superior stock, they marry it with local breed and give the calves for the farmers to raise.

That is cheaper because the farmers don't have to pay straight away RM7,000-RM8,000 and in fact what is done in other developing countries and even in Thailand where they have a quite successful cattle-rearing industry by impregnating the cattle owned by the orang kampung with superior stock. It gives birth and it belongs to the orang kampung. So that is only RM50 per jab.

When you look at all this, again it is doomed from the very beginning. I don't think they will ever get that 310 satellite farmers unless they revamp the whole business operation.

Whose fault is it? Wouldn't the government have been part of this planning? Why didn't they realise that it is doomed from the beginning, as you put it?

I have a feeling, talking to pensioners from the Veterinary Department, people who claim to be in the know about the whole thing, they claim there has been strong opposition to this.

This is not the first time Malaysia is trying to do feedlot. Felda tried to do feedlot, it didn't work. I know Guthrie tried to do feedlot, again this question of costing. Feedlot operation is not that easy economically.

I'm not surprised when we started talking to a few ex-ministry people. Apparently there was strong opposition to the policy from the very beginning because it has been done before and it failed. What difference can Shahrizat's family do to these operations?

A lot of it (the failure) is because we don't have pastures for grazing. In fact one idea was that the best entity to do this would have been Felda or Felda settlers because they (the cows) could have growth under the oil palm trees and therefore you solve the problem of food, which is very costly.

I think they tried to look at that but it ended up with the palm oil yield dropping because the cows were stepping on the trees.

christmas school 261211 muhyiddinSee, there is a problem. That's why the ministry and (then-agriculture minister) Muhyiddin (Yassin) cannot wash their hands clean of this. I dare say the decision was theirs.

Shahrizat has in the whole decision-making. Because if it was to go through a proper independent scrutiny in terms of financial viability, most probably it wouldn't be approved at all.

The fact that it was approved when there were so many instances in the past that such operations would have been doomed, and the fact that throughout the time it was approved, more money was transferred out to other companies without the approval (from the government).

The Agriculture Ministry and Muhyiddin cannot wash their hands clean of this because it's very obvious that if they had been objective and had some business common sense, this project would not have been approved. This RM250 million would not have been approved.

Do you think the family was set up to fail?

Are you saying sabotage? No, I don't think so.

Like they were handed a white elephant to take care of?

No. I went through a lot of Internet searches to get an idea of how much the family was into the thing.

If you see how much they were in the limelight in the first few years after being given the project, clearly they were enjoying the limelight.

You would see Izmir and the brother (Izran, above) in Tatler magazine. In fact, the first time I came across NFC was not in Laporan Ketua Audit Negara, it was in Tatler magazine sometime in 2007 or 2008.

Very glamorous...

Very glamorous! You know, how he abandoned corporate life although he is very qualified to do national service. They were basking in the glory and attention.

If it is a white elephant project which they knew is sabotage for them, I don't think they would have enjoyed hobnobbing and all that. Even the launch of their Gemas beef was done by Muhyiddin.

But I think they knew from the beginning that to achieve that 276,000 cows per annum is an impossibility, and that's why I think they spent a lot more time doing other things.

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