Perceptions & Reality: Showcasing our agriculture opportunities to China
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1. Introduction

- Strong demand for WA agricultural products, but significant challenges
- We are going to talk about some of the specific challenges (Perceptions vs Reality) on the Chinese demand side
- Intended to promote discussion around what we can do to better “meet the market” opportunity
- The 5 Perceptions/Realities/Challenges – based on our view of misconceptions that the market has about dealing with China
- This is only part of the jigsaw
No. 1 – “WA is a known agricultural production hub in China”

• **Perception (in WA):** “WA is a known agricultural production hub in China”

• **Reality (in China):**
  
  • Western Australia itself is not well recognised in large parts of China as a agricultural production destination
  
  • Perth and WA themselves are not well known by many consumers
  
  • WA has a competitive “perception” disadvantage compared to Victoria (eg, dairy), South Australia (eg wine), NSW (eg Beef) and Qld (eg Beef) when marketing our productive capacity to China
  
  • *Example:* Marketing a bottled water project in Shanghai in 2015 – “You don’t have water in Western Australia”.
• **Challenge:**
  
  • We need to better market the scale and commodity mix that we can produce in WA to China
    * Many Chinese know that we have > 30% of Australia’s land mass – but they don’t know what we can produce with that land mass (or they assume that most of the land is non productive)
    * Need to deal with the “big dusty, dry, mining town perception” that exists in many minds
  
  • Co-ordinated campaign is needed to promote Western Australia as an agri-production destination
  
  • All stakeholders (Government and Industry) have a role to play
No. 1 – Continued…..

• **Challenge con’t:**
  - Need to continue efforts to build unique brands that can project WA’s diverse, safe, agricultural production capacity
  - Effectively creating a unique "Western Australian” brand
  - Changing perceptions will be more challenging for some commodities than others
  - Multiple platforms and brand positions are needed to educate the major Chinese markets on our product offerings
  - Some great work already being done by a range of industry groups and State Government. However, a more coordinated “brand position” for WA would assist
No. 2 – “WA has the scale that many Chinese investors/importers need”

- **Perception (in WA):** “WA has the scale for mass production of a broad range of agri-products for China”

- **Reality:**
  - In addition to Reality identified in Number 1 (previous slides), many investors and importers in the non bulk commodities areas express concerns about the lack of scale/economies of scale of WA agri-industries today

- **Challenge:**
  - Numerous studies have identified that the WA agri-industry needs significant capital to expand to meet demand for products and potential products
  - China can be a major source of that expansion capital - if we are able to harness the potential investment
  - This will again require productive land expansion (eg, projects like Ord Stage II and III) ahead of investor capital
• **Challenge continued:**
  - Across Australia > 85% of Australian farms are still family owned
  - Opportunities for large scale agri acquisitions of profitable ventures are more limited that many investors initially perceive
  - Western Australian agri-industry, particularly some sectors like dairy production, may need to embrace industry consolidation (including through co-operative farming/production models) **BEFORE** investors will commit to acquire offtake and fund expansion
No. 3 – “Chinese capital is patient – it will invest in unprofitable businesses for the long term”

• **Perception (in WA):** “Chinese capital is patient and long term – it will invest in unprofitable businesses for the long term”

• **Reality:**
  • Competition for Chinese capital, globally, is intense. Some investment managers receive, literally, hundreds of projects across their desks each month
  • The perception that China values businesses on a fundamentally different basis to other investors and that they don’t do due diligence is grossly overstated

• **Challenge:**
  • Numerous studies have identified that the WA agri-industry needs significant capital to expand to meet demand for products and potential products
  • We need to be realistic with land and sale valuations
No. 3 – “Chinese capital is patient – it will invest in unprofitable businesses for the long term”

**Challenge:**

- Demonstrating the intrinsic value of your project/opportunity is essential to attract capital
- “Blue sky” land valuations that are based on a myth that China is fervently trying to acquire land for lands sake are misguided (See Number 4 as well)
- Chinese investors and investment advisors are now usually highly sophisticated and educated investors – the days of “careless money” that we may have seen a decade ago are largely gone
- Over inflated valuations on assets for sale damage the entire market and drive down investor appetite to look at other opportunities (we are seeing this currently with land valuations)
No. 4 – “China really wants the land first and foremost”

- **Perception (in WA):** “China wants to buy our land and that is the main focus”

- **Reality:**
  - Many Chinese investors are seeking access to the protein rather than just land (Fact: China owns less than 1% of Australian agri-land)
  - Models that decouple land from the production are increasingly attractive to Chinese investors from a number of different perspectives including:
    - less capital investment needed
    - capital focussed on protein production
    - perceptions that Australian regulatory hurdles (particularly foreign investment) are lower and therefore less transaction execution risk
No. 4 – Continued...

- **Challenge:**
  - We need to embrace different agri-investment models that focus capital where it is most needed (i.e., production and infrastructure).
  - For many sectors – land ownership – should not be seen as a major investment driver.
  - Production including joint venture farming, leasing and offtake models that decouple land ownership should be actively considered (generally, doing so often improves project economics).
No. 5 – “China wants outright control and 100% ownership”

- **Perception (in WA):** “China wants outright control of the business and wants to acquire 100% ownership”

- **Reality:**
  - 100% acquisition model was initially the favoured investment model for what were largely State Owned Enterprise investors when the first “wave” of Chinese investment occurred between 2007-2011
  - Since 2011 we have seen rapid increase in “POE” (Private Owned Enterprises) investing in the agricultural sectors worldwide
  - China is a “fast study” and has looked at the hallmarks of other investor’s investment models (including Japanese minority interest/joint production models)
No. 5 – Continued...

**Reality continued:**

- There is a strong recognition that Australian agriculture is significantly “family enterprise” driven
- Recognition that many sectors are inherently conservative and that partnership and joint venture models are important (including to deal with community perceptions)
- Past 5 years we have seen rapid expansion of joint venture and partnership models for acquisitions and production offtake deals across broad range of agri-products
  - Example: Legend majority acquisition of Kailis Seafoods
  - Example: Fonterra JV with Beingmate (Darnum – infant formula)
• **Challenge:**

• We need to embrace and consider joint venture, partnership and cooperative models that leverage each party’s natural advantages:
  
  • **Australian Side**: Production, experience and relationships in the area and Australian social licence to operate
  
  • **China Side**: Capital, access to China markets, existing distribution networks and capacity to assist in navigating the “cultural minefield” of exports to China

• Partnership models also requires greater willingness to understand the cross cultural divide and work out how to work together on a sustained and long term basis. In the short term – those models are harder than outright sale of 100% - but they will produce better long term, shared and profitable outcomes
Thank You