An overview of the challenges and opportunities associated with foreign ownership of Australian agricultural land and agri-businesses.

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In mid 2009, I was asked to do a presentation for one of Australia’s largest superannuation fund managers about the opportunities for investment in Australian agriculture.

To put the timing of this request in context, remember that the Australian share-market all-ordinaries index had peaked at around 6,873 in November 2007, and had then slumped to 3,112 by March 2009, losing almost half its value over this period. This was also the period following the global soft commodity price spike of 2007-08, a period during which the global price of some agricultural commodities had doubled, and the media and many commentators had suddenly discovered the term ‘food security’.

I provided the fifty or so investment managers in the room with a pretty factual overview of Australian agriculture, pointing out that the best farm businesses had consistently produced a 10-12% annual return on investment, with more than half that return being increases in land value that over time averaged 7-8% per annum, but was characterised by periods of fairly static land values followed by short periods of rapid gains.

I also pointed out that these returns could be maintained over the longer term, especially in the case of diversified farm businesses which had some geographical spread that helped to manage climate risk, and that agriculture tended to be a countercyclical sector of the economy.

I was asked a series of questions about the liquidity of investments in the sector, and the likelihood that investments in the sector could generate consistent returns equal to or better than the organisation’s (then) benchmark rate of a 15% annual return. When I explained that those investment returns were probably not feasible, but that compared to the share-market, the risk associated with a balanced investment in agriculture were considerably lower and different, I was almost laughed out of the room.

This response, mind you, from a superannuation funds manager that had seen the value of clients superannuation investments almost halved over the previous two years. It was later explained to me that the fund manager had virtually no exposure to Australian agriculture, despite this company managing in excess of 10% of Australia’s trillion dollar superannuation investment pool.

This was a very sobering experience, which highlighted the realities of the investment environment in Australia, and professional investment managers’ perceptions of the agriculture sector. It also highlighted in a very stark manner the challenges associated with attracting domestic investment funds to larger-scale projects in the agriculture sector.

It is worth remembering that this coincided with the launching of at least two major Australian-owned agricultural investment funds, both of which were fully subscribed – but by overseas investors. These two “Australian” funds have subsequently become the operators of major agriculture businesses, with total investments now approaching two billion dollars.

Interestingly, a significant number of the farms purchased by these funds were previously owned by foreign investors, two of the largest of which previously owned over 400,000 hectares of land and have substantially sold off this land over the last three years.

I should note that neither of these two new Australian agricultural investment funds would be classified as ‘foreign investment’ in Australian agriculture, despite in excess of 90% of their original funding being from overseas sources.
These developments also coincided with a dramatic restructuring and consolidation of the Australian agribusiness sector, with many companies in the dairy, grains, sugar and food processing sectors being taken over by foreign investors, to the extent that there are probably now only half a dozen wholly Australian owned or listed agribusiness organisations of global scale.

As I was preparing this paper, it was announced that the Inghams poultry business will be offered for sale, and unless there are some Australian investors ready to stump up around $1.6 billion, that business too is likely to become foreign-owned in the not too distant future.

This personal anecdote and related background information neatly encapsulates the complexity of foreign investment in Australian agriculture, and the factors that need to be considered in deciding whether any policy or other action is required.

It highlights the reliance that parts of the sector have on foreign investment of one form or another for continued growth.

It also highlight that Australian agriculture is increasingly enmeshed in the global markets, and hence attracts investment from major international organisations also involved in those markets.

There are a range of questions that arise in relation to this issue. Perhaps the most important are as follows;

- Firstly, what is the extent of foreign investment in Australian agriculture, and to what extent has this changed over recent years?
- Secondly, irrespective of trends in foreign investment in the sector, what are the dangers and opportunities for Australia in selling off the farm and related economic sectors to overseas owners?
- And finally, what should be done about this issue? Is it something that Governments and the sector either can or should do anything about.

For the remainder of my address today, I will attempt to provide some answers to these questions.

**The extent of and trends in foreign investment in Australian agriculture.**

While asking how much of Australian agriculture is owned by overseas investors seems a relatively straightforward question, providing an answer to this question is extremely difficult. Unlike most overseas nations, Australia does not maintain a register of foreign land ownership.

This arises for a number of reasons. Firstly, land title information is the responsibility of State Governments, and none of these have a requirement to identify if the purchaser of land is Australian or not – with the exception of the Queensland Government which has initiated a register.

It also arises because the Foreign Investment Review Board has a minimum threshold of $244 million (or more than $1,000 million for US investors) before it is required to consider whether a foreign investment in farm land is in the ‘national interest’. This threshold is applied to a single purchase, but not to accumulated purchases, meaning that individual farm purchases are never subject to FIRB review.

Purchases of farm land by Foreign Government entities (more than 15% government owned) are subject to FIRB review, although there is not a register published of the extent of these purchases.

This is in contrast to the USA, for example, where the Agricultural Foreign Investment Disclosure Act of 1978 requires any foreign purchaser of farm land of more than 10 acres to file a report detailing those holdings within 90 days of purchase. This enables the USDA to provide an annual report on the extent of foreign farm land ownership in the USA, which at the end of December 2010 amounted to 24 million acres, or 1.9% of all privately held agricultural land.
Similarly, New Zealand requires any overseas purchaser of rural land that is larger than 5 hectares to first gain approval from the Overseas Investments Office. This means the New Zealand government can report regularly on foreign farm land ownership extent and trends.

In response to growing concerns about foreign ownership of farm land, the Australian Government recently commissioned the Australian Bureau of Statistics to conduct a survey of foreign ownership of farm land in Australia. The survey involved responses from some 11,000 of an estimated 165,000 agricultural businesses in Australia, with the threshold for inclusion being a minimum of $5,000 of annual output.

The problem with this approach is that over 60% of so-defined farm businesses have annual turnovers of less than $150,000, and only 2% have annual turnovers in excess of $2 million, yet foreign ownership would be much more likely for the largest sized farms. The ABS did attempt to adjust for this in its sample, but acknowledged that the time constraints under which it operated meant it had to rely on modelling to come up with its final estimates.

The projections arising from that survey indicated that around 44 million hectares or 11% of Australian agricultural land had some degree of foreign ownership, and foreign ownership of water entitlements was also projected to be around 10% of total entitlements. The results of this survey were said to be similar to an earlier survey carried out in 1983-84, suggesting there has not been much change in foreign farm ownership trends over the thirty years between the two surveys.

The ABS was subject to a fair bit of criticism over the adequacy of its methodology and projections, albeit it had a difficult job to do within a limited timeframe. The ABS projections have also been used in quite misleading ways to downplay foreign farm ownership.

For example, the statement, arising from the ABS projections, that 99% of agricultural businesses in Australia are entirely Australian owned is highly disingenuous, given the inherent bias in the sample population. The ABS projections actually provide only very limited information about the size of or trends in overseas investment in Australian farm land, and certainly provide no information about the scale of overseas-owned farm production.

Some of the ABS projections could just as easily be used to exaggerate foreign farm ownership. Few appear to have noted, for example, that according to the ABS projections the relative extent of foreign ownership of Australian farm land is more than five times that of the USA. It is also little realised that Australia’s largest land owner, the iconic Australian Agricultural Company, which owns 7.2 million hectares or 1.1% of Australia and runs almost 500,000 cattle (2% of the total beef herd) is reportedly 60% overseas owned by UK, US and Malaysian investors. How listed entities with some foreign ownership were treated in the survey was not explained. Similarly, there is some indication that in the case of Australian registered holding companies with majority overseas ownership, the owner was reported as Australian.

The question of the extent of foreign ownership of Australian agribusinesses is even less certain that foreign farm land ownership. That said, there would be few argue with the proposition that foreign ownership of Australian agribusinesses has increased over the past decade. This is in part one of the inevitable consequences of the deregulation of Australian agricultural markets, coupled with the indifference of the Australian investment sector towards agricultural assets.

A recent report prepared by ABARES provides a brief summary of the growth of foreign investment in Australian agribusiness assets, albeit at an anecdotal rather than quantified level.

In the grains industry, Viterra from Canada has taken over ABB, while Agrium (Canada) took over Landmark and on-sold the AWB business to Cargill, the US based grain trader. More recently, Viterra has been taken over by Swiss-based commodities trader Glencore, which has also taken a major stake in grain producer AACL.

The dairy industry was deregulated in 2000, and since that time there has been a large amount of foreign investment take place. It is currently estimated that about 50% of the milk processed in Australia is now...
Foreign investment in Australian agriculture

processed by foreign owned firms. ABARES estimates that Lion (Japan) and Fonterra (New Zealand) process about 45% of Australian milk, while Parmalat (France) processes another 5%.

A similar picture emerges in the sugar industry. Bundaberg Sugar is owned by Finasucré (Belgium), CSR – now called Sucrogen – is owned by Wilmar (Malaysia), while Tully sugar is now owned by COFCO, a Chinese government owned corporation. Maryborough Sugar is part owned by Mitr Phol (Thailand) and it is estimated that more than 60% of Australian sugar is now processed by foreign-owned companies.

In the meat industry, major overseas owners include JBS (Brazil), Cargill (in partnership with Teys Brothers) and Nippon Meat Packers. ABARES estimates that foreign-owned companies process over 40% of all Australia’s red meat production.

In the vegetable industries, McCains and Simplot are two of the major processors and both are foreign companies. In the cotton industry, overseas-owned companies such as Olam, Auscott, Louis Dreyfus, Twynam and Cargill operate alongside Australian-owned Namoi Cotton, which has struggled financially over recent years and may become foreign-owned in the near future. The wool processing industry was also previously dominated by overseas processors, although most of these operations have largely closed down and most wool processing now occurs in China.

In the case of the pig industry, the largest grower/processor is Rivalea, owned by QAF foods of Singapore. Beef feedlot capacity in Australia is dominated by companies such as Cargill, JBS, Marubeni and Mitsubishi. There is also considerable overseas investment in feed manufacturers and grains and oilseed processors.

The clear picture that emerges from even this cursory analysis is of an agribusiness sector that could be said to be dominated by foreign-owned entities.

While some may express concern about this situation and continuing developments, it is perhaps worth noting that the same situation applies in many other sectors of the economy. The automobile industry, for example, is completely dominated by foreign owners, and there is also a very large proportion of the mining industry that is foreign owned. This is perhaps not surprising in a small, open economy such as Australia which has traditionally relied on inflows of capital investment to fund economic growth.

**Dangers and opportunities associated with foreign ownership.**

The crucial issue in any discussion about foreign ownership of Australia’s farming and agribusiness assets is not the extent of foreign ownership but rather what risks or opportunities arise from different levels of foreign ownership.

One of the more commonly mentioned risks attributed to foreign farm land ownership is that the production from that land will be shipped directly to the owner’s country of origin, and will not be available within the Australian domestic market. Presumably the fear is that this could mean that in a future time of food shortages, Australians could go hungry while others enjoyed Australian-produced food. While this concern might have some resonance in a less food-secure nation than Australia, in the Australian context it is completely irrational. Australia exports between half and two thirds of its food production, and is rated one of the most food-secure nations on earth, being the world’s 4th largest net exporter of agricultural products.

How anyone could conceivably imagine a foreign person could secure sufficient farm land in Australia to pose such a risk is beyond comprehension. As noted earlier, Australia’s largest landholder, AA Co., controls just 1% of the land area and in all likelihood is responsible for considerably less than 1% of total agricultural output.

It would take fifty operations of the same scale, all completely diverting their agricultural output to non-domestic markets before there would be any conceivable risk to national food security, and even in that case our major supermarkets would simply increase the proportion of food they import and no-one would go hungry.

To be really frank, a greater threat to future Australian food production capacity is the continued diversion of land and water from productive agricultural purposes to urban and conservation uses, and increased regulation...
of land use. There is little recognition, for example, that over the past thirty years more than one fifth of the land previously used for agricultural production in Australia – in excess of 100 million hectares – has been converted to conservation areas, and current proposals are to divert more than 20% of the water currently used for irrigation in the Murray Darling Basin to non-agricultural uses.

A second risk that is sometimes identified in relation to foreign farmland ownership is that foreign purchasers with access to cheap finance will be able to pay more for land, and unfairly out-compete potential Australian buyers – especially young farmers wanting to enter the industry. Whether or not foreign buyers have access to cheap finance is difficult to determine, although this is likely in the case of government-funded foreign buyers. The extent to which such foreign buyers push aside new and young Australian industry entrants is difficult to determine, but it seems highly unlikely a young Australian farmer would be competing for the same farm land as a foreign buyer.

History suggests that foreign purchasers are looking for farm land assets valued between $20 and $50 million, rather than smaller holdings that would seem to be the likely target of young Australians wanting to take up farming. In any event, there are more direct policy measures available – such as young farmer finance schemes – that can better level the playing field for young would-be farmers.

What also tends to be forgotten in this discussion is that for every buyer prepared to pay above the odds for farm land, there is a seller that goes away happy, with extra cash to reinvest in the sector or to spend in the wider economy.

A third danger commonly discussed is that foreign owners – and especially foreign corporate owners – will simply trash the land and destroy the environment, and not look after the land as well as Australian owners. The reality from my observation is usually quite the opposite. Corporate and foreign owners are often answerable to investors who are very keen to ensure their reputation is not tarnished by poor environmental stewardship, and often seem to be more careful in their approach to sustainable practices. Foreign land owners also generally have better access to the finance necessary to implement environmental enhancements, and often see such expenditure as a way to enhance the capital value of the land.

A fourth issue occasionally raised in relation to foreign land ownership is that such owners might import labour and farm inputs, thereby contributing little to the domestic economy and creating a foreign colony on Australian soil. This could be a risk, although again in my experience the first thing foreign owners do is employ experienced Australian farm managers and workers, rather than import them.

It is also my observation that foreign owners go out of their way to support local communities through purchases, contractor hiring and with sponsorships and community support efforts. In one instance, the foreign owner even bought and did up the local pub and then ran it at a loss to make sure the community retained its social centre.

On the other side of the ledger, there are a number of advantages that seem to arise from foreign farm land ownership. Using the cotton industry as an example, it was kicked off in Australia by ‘foreigners’, who brought with them production and market knowledge that would have taken decades for Australian farmers to acquire.

The scale of the foreign owners gave them the capacity to trial new technologies and equipment, which can often be too risky for smaller-scale farm businesses. Over the years the larger foreign-owned cotton farms have become the test-bed for new technologies and management systems, which are readily taken up by smaller-scale Australian farm businesses once proven.

International market access is also often an advantage for foreign-owned farm businesses, which also brings benefits for Australian farm businesses in the same commodity sector or region. The foreign-owned farm may not have the capacity to meet all the needs of a specific market year round, but by working cooperatively with other Australian-owned farm businesses can share the market access advantage and meet the market needs.
There is no doubt the scale of investment able to be undertaken by foreign owners of farm land means that costly improvements, such as fencing and watering large-scale pastoral landholdings, or the implementation of large-scale irrigation developments, are more feasible. In fact it was foreigners – the Chaffey Brothers – who first identified the potential benefits of irrigation in the Sunrasia region of Victoria – and who were responsible for that development.

The risks and opportunities associated with foreign ownership of Australian agribusiness organisations are a more complex issue. In fact, despite the fact that foreign agribusiness ownership seems a much less emotive issue for the Australian community than foreign farm land ownership, I think there are more potential risks associated with foreign agribusiness ownership. To be specific, the risks arise not so much from foreign agribusiness ownership, as from the monopoly or near monopoly control over supply chains that can arise if a single buyer with deep pockets is able to gain control over a crucial asset or business in a supply chain. This then creates an opportunity to take advantage of the resulting market power by increasing fees and charges, or paying lower prices for agricultural commodities.

It is legitimate to question, for example, whether a foreign-owned agribusiness organisation based in Australia with substantial market power would be prepared to confer an advantage on Australian farmers that disadvantaged its overseas parent corporation. It is also legitimate to question whether a monopoly or near monopoly supplier of technology or services to Australian agriculture is charging a fair price for access to that service or technology – be it a processing facility or a farm production technology.

There is no doubt that foreign agribusiness ownership also brings many potential advantages. Perhaps the most obvious one is linked to my earlier observations about the ignorance or indifference of the professional investment sector in Australia toward investment in agriculture or agribusiness. The result is that when Australian-owned large-scale agribusiness need refinancing for whatever reason, it seems almost inevitable that the funds will be sourced internationally rather than from within Australia.

We have seen that in relation to developments in the grains, sugar and dairy industry, as well as the meat processing industry. I suspect we are also about to see that in the chicken industry.

Foreign investors provide Australian agribusiness with access to capital that seems to be unavailable within Australia, or that is only available at a higher cost or structured in a way that is less efficient. Foreign agribusiness ownership also often brings with it enhanced market access, because the investors are usually already heavily involved in specific markets, and are interested in better integrating Australian farm products into the global supply chains they are involved in.

We need to look no further than the indifferent performance of some Australian agricultural cooperatives to gain an understanding of the benefits that can be associated with enhanced market access and knowledge. Perhaps this is an inevitable outcome in a situation where Australian agriculture is so heavily dependent on export markets, and does not have easy opportunities to build a strong domestic market base.

**Is action needed on foreign ownership of agriculture and agribusiness?**

As is probably evident from the preceding discussion, it seems to me that the sometimes emotional opposition that is voiced to foreign ownership of Australian farmland is not justified, based on available evidence and observations.

As more than a few commentators have pointed out, Australia has a long history of foreign ownership of Australian farmland, and indeed I have heard an aboriginal representative voice the opinion that most Australian farmers are foreigners, from his perspective!

The British were prominent as foreign land owners prior to World War two, when that nation was an important export market. After World War two, the US became more prominent as landowners, followed by the Japanese, as Australian agricultural trade patterns shifted. More recently it has been Middle Eastern and South Asian investors buying land, as those nations have become dominant agricultural export markets. In each case the
origin of foreign farmland investment seems to have waxed and waned as changes occurred in export markets, and in many cases foreign-owned farms have been sold to new foreign owners.

Perhaps the most enduring aspect of this issue over an extended period has been the lack of transparency about the extent of, and trends in foreign ownership of Australian farm land.

It often seems that those who call for greater transparency are automatically assumed to be opposed to foreign farm ownership, and these calls have often been dismissed on that basis in the past.

I think this is unfortunate, as it seems to me that greater transparency would actually be the best way to dispel community disquiet about this issue. Perhaps the results of the recent Lowy Institute poll which revealed that 70% of survey respondents were concerned about foreign farm land ownership has finally moved governments to address this issue, and I note recent announcements from both State and Australian governments about actions to establish a register of foreign ownership of farm land.

I think this will, if implemented, be a very useful contribution to more rational debate on this question.

On the issue of actions that may be deemed appropriate in response to increased foreign ownership of Australian agribusiness organisations, I have come to the conclusion that foreign ownership is not the issue.

I think the bigger issue is market concentration and more specifically market transparency, irrespective of whether the participants in a market or supply chain are Australian or foreign owned.

Australia has been through a process of agricultural market deregulation over the past two decades, and that process appears to have greatly improved the efficiency of markets and given Australian farmers greater choice and flexibility in their marketing arrangements.

However, a side-effect of this process has been a reduction in the transparency of markets, with information about prices and volumes held by only a few participants. The wool and red meat industries recognised the importance of robust market information and maintain systems that make it available to all participants, but unfortunately it seems the grains, dairy and horticulture industries have not understood this.

In the case of the grains industry in particular, the current debate about the future role of the Wheat Export Authority is particularly perplexing, with some growers apparently opposed to the availability of transparent market information that the WEA has the potential to provide.

The availability of robust and objective market information is a feature of agricultural markets in many nations, as governments have long-recognised that this provides the opportunity to identify uncompetitive behaviour, but also acts as a deterrent to such behaviour by dominant market participants.

The lack of such information in many agricultural markets in Australia, and in particular the grains, dairy and horticulture markets, seems to be a major weakness and one that will inevitably lead to concerns about the competitiveness of those markets, irrespective of whether or not there is foreign ownership involved.

While governments point to existing law such as the Australian Competition and Consumer Act as an appropriate way to deal with concerns about unfair practices by dominant market players, recent events cast doubt on whether such laws can allay concerns about these issues in agricultural markets.

The legislation as it stands requires affected parties to assemble their own evidence and take the role of prosecutor if they have a problem, - a task that is almost impossible for small-scale businesses.

Interestingly, Division 5 of the Australian Competition and Consumer Act does contain a series of clauses that empowers the ACCC to monitor prices in specified markets, at the direction of the Minister.

This power has not been used in agricultural markets, but it seems to me that the judicious use of this power or even the threat of its use could be a very useful way of creating greater transparency and efficiency in Australian
agricultural markets, and allowing more rational decisions to be made about the relative merits of foreign ownership, or supermarket duopolies, or monopoly control over markets or logistic systems.

In conclusion, I believe the benefits of foreign ownership of Australian farm land and agribusinesses outweigh the dangers, and I am not even sure the dangers that are often talked about are real. It also seems to me that some of the dangers that are referred to are not related to foreign ownership per se, but to the structure of markets and the lack of transparency of those markets.

Taking action to increase the transparency of foreign farm ownership, and implementing measures to improve the transparency of concentrated agricultural markets and supply chains seems a logical way to dispel some of the community and industry unease about this issue, and to ensure Australian agriculture can take best advantage of the exciting opportunities that are emerging as the so-called Asian Century progresses.

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