The UWA Institute of Agriculture
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Foreign ownership of Australian agricultural land and agri-business: challenges and opportunities

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Foreign Investment – The Past…The Present...The Future?

PGA President Rob Gillam

Foreign investment into Australia's farmland and agricultural businesses has gained a great deal of media attention in recent times - especially with some politicians in Canberra.

Senator Bill Heffernan believes that Australia risks becoming a nation of tenant farmers.

According to Senator Nick Xenephon Australia has become the laughing stock of the world when it comes to protecting our prime agricultural land.

Senator Christine Milne believes that foreign investment in agriculture has led to the world embarking on a dangerous era of food insecurity and imperialism, which will fuel conflict and famine if it is ignored.

Yet it is hard to see why the risks associated with foreign investment are higher in agriculture than in other sectors of the economy.

Mining, Oil and Gas, Airlines, Ports, Supermarkets, Department Stores, Car Manufactures, Food companies – all have significant amounts of foreign investment. All survive because of foreign investment.

So why should agriculture be treated differently?

After all, some of the most iconic names in Australian agriculture have significant amounts of foreign investment including our second largest landholder, AACo which is more than 60% owned by offshore interests, including British billionaire Joe lewis, US fund managers and a joint venture between Dubai's IFFCO and Malaysia's Felda.

There is no reason to believe foreign investment is somehow less beneficial if it occurs in agriculture. In fact if we look at the past, if it wasn't for foreigners, there would be no agriculture in Australia.

In 1788 the first foreign investment in Agriculture followed the arrival of the First Fleet. Colonialists began raising livestock and growing grain and vegetables, resulting in the acquisition of land by farmers.

In 1804 Devon farmer John MacArthur brought seven rams and one ewe from the first dispersal sale of the King George II stud thus introducing the merino to Australia.

In 1903, thanks to foreign investment, Englishman William James Farrer developed the Federation strain of wheat, which resulted in a trebling of Australia's wheat harvest over a period of twenty years, allowing wheat exports to become a world class enterprise.

Thanks to investment in property by the Americans in the 1950's and 60's sand plain cropping and pasture lands were developed in Esperance.

Foreign investment from the Middle East during the 1970's saw the development of the live export trade to that region and in fact one of our largest and most successful live exporters, Wellard Group is Italian owned.

The late 1990's and early 2000's saw American Bio-tech companies introduce new advances such as GM cotton and canola.

So what is the big deal?

According to ABARE, since 1984 the amount of Agricultural land owned by non-Australians has increased by 5.4%. That is less than 0.19% per year.

Much of the community and political debate has centered around criticism of foreign companies "buying up the farm" and threats to Australia's food security.

The most frequently stated fear is that foreign owned farming corporations will use land in Australia and other countries to expand the production of subsidised crops for the their own markets.

And this will lead to the destruction of rural communities, the end of the family farm and destroy Australia's food security.

Well, we have already seen that there has been and currently is a fair amount of foreign investment in agricultural land and businesses and that the industry has only benefited from such investment.

Foreign investment in regional industries like mining has not only ensured the survival of many of our regional towns, but also led to massive investment in regional infrastructure and community services.

Why will foreigners investing in agricultural land not do the same?

The farms will still require workers and services and infrastructure. They will still need to hire local people, buy local items and purchase equipment from local dealers, because foreign ownership of land does not equal a work visa or citizenship.

Prices paid by foreign investors for Australian farmland will be based on their perception of potential profitability. And those proceeds will be most likely reinvested in Australia, contributing to the national income.

And if, to use the usual fear, it is the Chinese government purchasing the farmland, it does not mean that the land is no longer part of Australia and not subject to the same laws as every other property.

If Chinese state-owned farms in Australia chose to operate at no profit or a loss, that would be a loss of China's national income, not ours (since the forgone profits would have belonged to China). Nevertheless, the Chinese owners might find themselves with a hefty Australian tax bill if the absence of a profit had been contrived.

If sovereign risk is one of the major threats to local agriculture, foreign investment is one of the best ways to deal with it. Foreign governments, who have directly invested in Australia through sovereign wealth funds, or have constituents with an investment in Australia, are less likely to pursue policies that would reduce the value of these investments.

And let us not forget that the definition of Sovereign risk is ***the probability that a country will not pay its debts***. Australia has one of the strongest economies in the world because we are the producers, not the buyers.

Concerns about food security present tremendous opportunities to attract foreign capital, maintain access to markets and improve productivity. To turn away our investors would not only be detrimental for their food security needs and national development, but also to our own interests.

Despite the forecast strong increase in the world's demand for food, Australian agriculture faces a fiercely competitive market for bulk commodities, which make up most of our production.

- The top 25% of Australian farms account for almost 60% of output, 85% of profits and 55% of investment.

- The bottom 25% account for only 10% of investment.

- And farm productivity growth has slowed from 2.2% a year before the mid-1990s to just 0.4% a year since.

Scale is critical to success in bulk commodity markets. But achieving sustainable scale requires large, appropriately geared balance sheets. Access to a range of sources for foreign investment would deliver important benefits to Australian agriculture, such as improved market access, reduced price volatility, a generally lower cost of capital and technology transfers.

All of these will be critical if Australia is to reap the benefits of predicted increases in demand for food over coming decades.

However the current foreign ownership debate only pushes our trading partners towards more barriers to trade, which are detrimental to the interests of our farmers who face and will continue to face intense competition in overseas markets.

The question that we should be asking is not just who should be allowed to invest in the agricultural sector but how we can work with foreign investors and participants to secure our long-term national security and prosperity?

Australian agriculture, in conjunction with our government, must convince our major trading partners that their food security is best managed by investing in a stable, profitable and productive agricultural sector.

The issue of who owns our land and agricultural assets is important and must be debated, but a bigger challenge – and the one we must rise to – is the need to reorientate our thinking towards the future of our agricultural industry and the important role it can play in delivering sustained wealth for Australia, while contributing towards global food security.

But at the end, the issue over foreigners buying up Australian farmland is handled very simply on an individual basis.

If you don't want to have foreigners buying your land, then do not sell it them.

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