

FOOD GLORIOUS FOOD

or how I learned to stop worrying and love foreign investment in Australian agriculture

By Andrew Lumsden

The development of Australia's food industry and "food security" has recently occupied a great deal of public attention. Even before we learned how nationally significant Cubbie Station was both the Leader of the Opposition and the Prime Minister were talking about the need for Chinese investment in the development of Australia's agriculture sector.

In his keynote foreign policy [speech](#) on the China relationship Mr Abbott made specific mention of the prospect of development of northern Australia, which "could be a food bowl for Asia." Similarly the Government has released the [National Food Plan green paper](#) to explore how Australia can seize opportunities in the global food sector and particularly the emergence of North Asia as the powerhouse of the new world economy.

Foreign investment will be integral to Australia's ability to capitalise on the opportunity to help feed the growing populations to the immediate north of Australia. Recognising the need for a cohesive national policy on agriculture and public sensitivities to foreign ownership, the Coalition has released its policy discussion paper on [Foreign Investment in Australian Agricultural Land and Agribusiness](#). It is clear that agriculture and foreign ownership of agricultural assets is firmly on the national agenda.

Into this heated debate came the [announcement](#) on 31 August (Friday afternoon) that the Treasurer had approved a proposal led by a Chinese textile and clothing firm Shandong RuYi Scientific & Technological Group Co. Ltd to acquire the assets of the Cubbie Group. The predictable crowd railed against the sale on the basis that farmland is special and sacred, and should be reserved for Australian farmers. They believe Cubbie Station should be under domestic ownership. This, even though it has been in the hands of receivers for more than five years.

WHAT IS THE NATIONAL FOOD PLAN?

The National Food Plan was an attempt to establish an integrated approach to food-related policies and programmes for the benefit of business (including foreign investors) and consumers.

The Government wants to develop a policy to underpin its vision of Australia as a reliable, sustainable, productive and resilient supplier of food. The plan follows from the earlier [Issues Paper to inform development of the National Food Plan](#) and the [Policy Statement on Foreign Investment in Agriculture](#) and the [Foreign Investment and Australian Agriculture Report](#).

SELLING THE FAMILY SILVER?

The "elephant in the room" in the National Food Plan is community concern enlivened by the Cubbie decision about growing levels of foreign ownership of agricultural land. It may be that public perceptions are overly influenced by the uninformed view of a pretty small but noisy minority of tabloids and shock jocks. But there has always been a high level of public sensitivity to selling Australian farms to foreign landlords be they English, American or Chinese.

Unfortunately the gap between the rhetoric and reality is that without extensive foreign investment in Australia's agriculture sector, much of what we now think of as our agricultural heritage would not exist and that is unlikely to change. But that doesn't mean there isn't a genuine community interest in the levels of foreign ownership of Australian assets. Yet the reality is a long way from the accepted wisdom.

Far from "selling the family silver" the [most recent survey](#) shows that 1% of Australia's 135,648 agricultural businesses was foreign owned and less than 44 million hectares, or 11.3% of Australian agricultural land, was owned by foreigners, of which around half had majority Australian ownership. While these figures have been criticised as misleading by some, there is no alternative evidence that points to any significant

issue with the size or impact of foreign ownership of Australian agricultural assets. Clearly, the data could be improved to ensure that the government better understands the issue but it is unlikely that the trend is completely wrong. This matter is explicitly acknowledged in both the Coalition's Discussion Paper and in the Government's Green Paper. However, the key point remains that there is little evidence to suggest that there has been any substantial levels of direct acquisition of farmland by Chinese sovereign wealth funds or state owned enterprises.

China and Australia both have an interest in improving food security. Australia's agribusinesses are at the cutting edge of productivity and capable of greater profitability if they can get better market access. China see Australia as an important trading partner and Australia has a great number of geographic advantages. As [KPMG's](#) report pointed out, to be successful Chinese investors in Australian agribusiness will need to promote the value-add they are contributing to the Australian economy and social structures.

MORE THAN XENOPHOBIA

The Coalition's Discussion Paper does not propose any change to the underlying "national interest" test. But does set out some proposals that would increase the number of transactions involving agricultural land and agribusinesses requiring foreign investment approval. These changes probably reflect a political awareness of community concerns about foreign investment in agricultural assets but are they warranted?

The Coalition has suggested a number of alternatives to better manage foreign investment in the agriculture sector without materially altering the overall liberal foreign investment settings. In summary they are:

Collecting better data	A national register of foreign ownership of property and businesses, including a compulsory notification obligation.
Acquisitions of agricultural land	Including agricultural land as a "sensitive sector" and introducing a cumulative threshold of \$15 million.
Acquisitions of agribusiness	Including agribusiness as a sensitive sector and introducing a threshold of \$53 million.
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These changes are not aimed at state ownership of agricultural assets (who would continue to have to apply for FIRB approval no matter the size of the investment) but rather seem focused on providing the community with a sense that the government is addressing more general community concerns about the level of foreign investment. Given the potential negative effects of introducing barriers to foreign investment in the agricultural sector (eg reducing home country tariff barriers to imports – maybe the biggest issue for Australian agriculture) perhaps the better policy response is to rely on the register of foreign ownership of agricultural land to address community concerns.

IT'S NOT WHO OWNS IT BUT WHAT YOU DO WITH IT

Perhaps the more complex and difficult policy issue is how we as a nation reconcile the competing aims of urban and mining land use and agriculture?

Our existing scheme of mining regulation in all states provides quite limited protection for landowners and the need for sustainable development principles to be taken into account. Similarly there is no existing certainty about how to properly balance the social and environmental importance of the land with the need to promote mineral resource development. In most states landowners can apply to have agricultural land excised from a mining licence (though not from exploratory licence applications). Frankly, broader excision provisions are needed to give agricultural landowners greater certainty if that is what the community really wants.

In Queensland, the first steps to ensure prime agricultural land is protected, have resulted in a policy and planning framework for how mining and urban development are to be undertaken on 'strategic cropping land'. In NSW, the government has a new 'gateway process' for mining and coal seam gas projects in close proximity to strategic agricultural lands. In other parts of the country the debate still has a long way to run. But it is a debate that we need to have that transcends the standard xenophobic rhetoric and the agriculture v mining rhetoric because it's about land use, and urban sprawl is as big an issue as mining.

SO WHERE ARE WE?

Clearly, Australia continues to welcome foreign investment in Australian agriculture but what are the limits? Australia's existing approval requirements for foreign investments in agriculture and agribusiness are described in the table below.

Investments in Australian rural land that require FIRB approval	
Category of investment/investor	Monetary threshold (updated each year)
Foreign government or related entity*	
Any direct investment	Any direct investment requires approval
Investors who are not foreign governments or related entities	
15% or more in an Australian business or corporation or interest in land used exclusively for primary production (agriculture, livestock etc)	\$244 million – value of total business or corporation (For US and soon NZ investors, threshold is \$1062 million)
15% or more in offshore company with Australian subsidiaries/assets	\$244 million – value of Australian subsidiaries/assets

The [Policy Statement](#) provides that in assessing foreign investment applications in agriculture, the Government will include the effect of the proposal on:

- the quality and availability of Australia’s agricultural resources, including water;
- land access and use;
- agricultural production and productivity;
- Australia’s capacity to remain a reliable supplier of agricultural production, both to the Australian community and our trading partners;
- biodiversity; and
- employment and prosperity of Australia’s local and regional communities.

BUT WHAT ABOUT THE WATER?

Reforms in all states, which began in the late 1980s, have made it possible for water entitlements to be traded independently of land. This has increased the potential for foreign as well as local investors to participate in the market for irrigation water in Australia. Because water is no longer “attached” to the land, acquisitions may well fall outside the FIRB regime.

In total, 8.5% of Australia’s total agricultural water entitlement is wholly or partly under foreign ownership. But this remains entirely outside the existing foreign investment rules, even in Western Australia which has the highest proportion of foreign ownership at over 31.4%.

CUBBIE STATION

The Treasurer gave the go-ahead subject to an undertaking by textile maker Shandong Ruyi that it would sell down its proposed 80% stake in Cubbie to no more than 51% within three years. The new buyer is not a state-owned enterprise.

Australian family-owned wool processor Lempriere Ltd has 20% of the consortium, which is now in the box seat to reach terms with Cubbie and its creditors. The vast property near the Queensland-NSW border was placed into voluntary administration in 2009 with reported debts of more than \$320 million. If successful, the sale process would bring an end to this uncertainty, ensuring the ongoing operation of Cubbie, “protecting jobs and supporting economic activity in the Dirranbandi and St George regions.”

While there has been a lot of attention paid to the proposal, what is not made clear is that the farm will remain subject to the same regulation of its water licences as before. Lempriere will be responsible for operating and managing Cubbie, including the marketing and sale of its cotton production in conjunction with the existing management team. All cotton will be sold on arms-length terms in line with international benchmarks and standard market practices. It will not be allowed to import labour or reduce its wages bill with any more freedom than other farms. It will have to pay its Australian taxes.

As the economist Peter Drysdale, one of the authors of the forthcoming Australia in the Asian Century report, has [pointed out](#) we need to be careful that Australia’s policy is not infected by “populist politics” that could inadvertently cause Australia to miss out on vital economic opportunities from an oversimplified stance on foreign and in particular, Chinese, investment.

DRIVING INVESTMENT AND TRADE

A growing world population and changing consumption patterns in Asia will provide new opportunities for Australia’s export food industry. Key to taking advantage of increased global food demand is for farmers and processes to be more productive and for the strengthening of ties between Australia and other countries.

As the 2011 [ABARES Report](#) found, foreign investment has been a significant force in the development of the Australian economy, including in agriculture and agribusiness eg the beef and cotton industry. The inflow of foreign capital has contributed, and continues to contribute, to investment, boosting employment and incomes. But the national interest should and must reflect community concerns and the government needs to make sure it has all the tools it needs to manage the issue.

Foreign investment will continue to be critical to gains in productivity and to the massive investment needed to develop northern Australia into anything like an important source of

food for Asia. Australia's agricultural sector will continue to need to attract foreign investment if it is to successfully tap into the growing demands of North Asia's rising middle class for a better and more protein rich diet. However, it is a far more complex problem than the Green Paper suggests, as Melbourne University's Victorian Eco-Innovation Lab [Food Supply Scenarios Report](#) found:

The tensions identified through this work [the Green Paper] are significant... they strongly suggest that a sophisticated and strategic approach to resource allocation is urgently required, if the multiple objectives of food security, energy security, greenhouse emissions reductions, sustainable resource use, a healthy environment and a viable economy are to be achieved...

Ultimately Luke Hurst, Peter Yuan Cai and Christopher Findlay from the [East Asia Forum](#) are right to say that Australia's food security is likely to be well served by a liberal foreign investment strategy. Australia should not be too quick to move away from an existing strategy that recognises that international markets are the best mechanism for preserving our economic and social prosperity.

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