QUEENSLAND FARMERS' FEDERATION

SUBMISSION TO THE FEDERAL TREASURY

STRENGTHENING AUSTRALIA'S FOREIGN INVESTMENT FRAMEWORK

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Queensland Farmers' Federation (QFF) is the peak body representing and uniting 15 of Queensland's rural industry organisations who work on behalf of primary producers across the state. QFF's mission is to secure a sustainable future for Queensland primary producers within a favourable social, economic and political environment by representing the common interests of its member organisations. QFF's core business centres on resource security, water resources, environment and natural resources, industry development, economics, quarantine and trade.

Our goal is to secure a sustainable and profitable future for our members, as a core growth sector of the economy. Our members include:

- CANEGROWERS,
- Cotton Australia,
- Growcom,
- Nursery and Garden Industry Queensland,
- Queensland Aquaculture Industries Federation,
- Queensland Chicken Growers Association,
- Queensland Dairyfarmers' Organisation,
- Queensland Chicken Meat Council,
- Queensland United Egg Producers,
- Flower Association of Queensland Inc.,
- Pork Queensland Inc.,
- Australian Organic,
- Pioneer Valley Water Co-operative Limited,
- Central Downs Irrigators Limited, and
- Burdekin River Irrigators Area Committee.

QFF writes this submission in response to the Federal Treasury's consultation paper surrounding Australia's foreign investment framework. QFF makes this submission specifically in regards to issues surrounding foreign investment in agriculture and offers no comment in regards to other matters such as foreign investment in residential property. The importance of foreign investment in agriculture is well-known and documented, but this submission will set out some of the finer detail surrounding this policy area. There are a number of specific issues that merit further discussion regarding the importance of foreign investment in agriculture. QFF sets these out below.

Long-term farm profitability and return on capital

Many factors influence farm profitability. But farming is a long-term business proposition that often spans decades and even generations, meaning that long-term wealth generation is equally as important to many farms and farmers as year-to-year profit. This means that growth in asset values is a crucial part of the overall farm wealth equation. Capital growth influences farmers' ability to expand, to access funding (debt) for expansion and innovation, and it plays an important role in either succession planning or retirement plans for farmers.

According to Land Commodities (2014), farm land values increased by an estimated 360% from 1992 to 2011, increasing for 17 straight years between 1993 and 2010. Total land appreciation was six times the rate of inflation (which was 64%)

Yet yearly returns for agricultural assets are highly volatile, even when taking into account what has historically been steady growth in land values. Kingwell (2014) has studied wheat properties and states that, “Since the mid-2000s the rate of return has diminished, falling from 11% in 2004 to zero or negative returns in 2010; then recovering towards 2% to 5% in 2013. For someone who invested over the four years 2002 to 2005 their returns were over 8% per annum. By contrast, a similar investment over the four years 2009 to 2012 generated poor returns of 2% per annum or worse”.

This demonstrates the risks and opportunities in agricultural investments. It underscores the importance of a healthy property market, and the need for government and policy makers to have a positive and ‘open for business’ approach.

Farm wealth generation can be aided by a robust market for rural property, when there are multiple prospective buyers in the marketplace.

According to Tomlinson (2014) “… Australian farming businesses rely very strongly on debt financing, and there is not the wide variety of different funding models that exist in other sectors, or in the agriculture sectors of other nations”.

However, there are also significant risks of “property bubbles”, meaning that land values must continue to maintain a correlation with the productivity and profitability of the farm in question.

We outline these key points with the following view: while the role of foreign investment in the property market may be relatively small, any policy manoeuvre that disrupts the property market by removing a portion of buyers from the market creates risks for all farmers. Even five-generation family farms depend on a strong property market existing around them. Based on the policy available to date, it does not seem that the government has duly analysed the potential impact that its proposed changes could have on the property market. Subsequently, it has not considered what this could mean for the broader agricultural community.

There were flaws in the arbitrary $252 million threshold figure in relation to the review point by the Foreign Investment Review Board (FIRB), including the fact that it effectively was only relevant to one individual farm in the entire nation. But there are questions about the proposed $15 million (cumulative) figure as well. The $15 million figure appears to have been developed without a regulatory impact statement or consideration of its implication for the broader agricultural property market.

The existing risks and costs of property investments and transactions

Buying and selling property in Australia is already an expensive and time-consuming exercise. At times, depending on the crop cycle and the commodity being produced, the window in which a farm can be viably sold exists for only a few months of the year. Prospective buyers already face substantial conveyancing costs, real estate fees, travel costs, and stamp duty. The risk profile of agriculture is also perceived to be higher than that of some other asset classes, which experience has shown to reduce the pool of potential buyers looking to invest in agriculture. Tomlinson (2014) points out that investment decisions in agriculture are already complex. “The major advantages associated with investment in the Australian farm sector, from an overseas perspective, include national economic stability, the technological and managerial skill of farm business managers, and the regional trade opportunities for food and fibre exports. Unfortunately however, factors such as climate variability and commodity price volatility frequently deter potential investors." The Government must carefully consider its policy position and consequences. QFF sees that the government has a strong role to play in partnering with industry in promoting the value of agriculture as an investment class.

Broader promotion of agriculture

QFF would like to see the government, parallel with its foreign investment changes, embark on a broader positive promotion of agriculture. Agriculture requires a range of investors and business models, and there is a strong role for the government in initiating this promotion and creating positive outcomes for the sector.

Currency markets and globalisation

Fluctuations in the currency market can create both opportunities and risks for foreign investors. Land Commodities (2014) estimates that the ten year capital returns to 2011 for Australian rural landowners from Europe, the US, Japan and Great Britain were notably higher than that of domestic investors. This cycle can swing both ways for foreign investors. But is a worthy consideration in formulating this policy.

Movements in this policy area should reflect Australia's broadening of trade to the world market. Australian farmers have benefited notably from numerous free trade agreements, and policies in this area should align with this approach to open global markets.

Tax implications and supply chains

Australian farmers want to know that foreign investors are on the same plane as they are when it comes to costs and taxes. There is some concern among the farming community that foreign investors could control, in their entirety, particular supply chains to export and use this as a means of reducing tax liabilities. Australia must also continue to have suitable control over, and input into, our supply chains and logistics. Surrendering entire supply chains or monopoly processors has resulted in negative outcomes for farmers in the past.

Water assets

It is a flaw within this policy that it is not proposing to include water assets within the scope of the changes. Water title assets for many intensive farms in Queensland can have a value equal to or even greater than the associated land. Water assets can turn relatively risky land that fluctuates in its production into a consistent economic performer and a reliable asset. Australia as a country is far more water constrained than it is land constrained.

What can you buy for $15 million?

The answer, when it comes to investing in Australian agriculture, is hugely variable. Buyers can pay $62 per hectare for grazing country near Quilpie (Herron Todd White (HTW), 2014) or $30,000 per farmed hectare and a further $40 per tree for a macadamia plantation on the Northern NSW Coast (HTW, 2014). In some cases, for example with intensive horticultural operations, improvements on a property such as packing sheds and lateral irrigators could be worth millions alone. In the scheme of assessing whether an investment should proceed, price is not the sole determiner of whether an asset is 'strategic'. We point this out to demonstrate that a dollar figure alone is not strategic and fails to comprehensively encapsulate what it seems the government is trying to achieve with this policy. The assessment of whether or not an agricultural asset should or should not be foreign owned is a more complicated equation than that of pure asset value. A truly comprehensive and considered policy would look at:

- What is the current productive capacity of the farm (and the local region)?
- What is the opportunity for greater or lesser production in the future? And
- Where does this property fit strategically when considering the local district and supply chains?

QFF encourages the government to take a broader and more strategic view of the assessment of foreign investment in agriculture.

Affordability of farmland

Australian farmland is relatively cheap by international standards when compared to other first world nations. However, it must be noted that some of this relative affordability factors in risks and other issues within the Australian farming system that are not shared by other countries that have much higher land values. Many comparable first world nations have more reliable weather and cropping patterns, they have better access to government-assisted crop insurance (we have none in Australia), and there are other subsidies accessible to farmers such as via the US Farm Bill. In European countries, there is a much higher constraint on land due to the higher population. Outside Australia's major cities and some regional centres, Australia is not similarly land restrained and does not face comparable competing buyers of agricultural land. There are competing policy objectives in place here that must be considered by the broader policy debate. While it is positive to see farmers increase their wealth, we also know that young farmers seeking to enter the sector already face significant hurdles in seeking to purchase property.

Sovereign risk

We know from past experience that FIRB rulings can be hijacked by politicians of the day, which risks decisions being subject to short-term and populist politics. In 2013, the FIRB was undecided on the Archer Daniels Midland takeover of Graincorp, leaving the final decision in the hands of Treasurer Joe Hockey, who rejected the takeover. Competent and astute overseas investors have plenty of opportunities to invest in places other than Australia. They may think twice about the risks involved in partnering with Australia and having their prospective investment derailed by a political whim, particularly if they have already outlaid large expense in getting to that point.

Foreign investment register

QFF welcomes the government's commitment to a register of foreign investment in agriculture. Industry has long been seeking such a move. Indeed, a robust register should be the first step in any policy change as it provides the data on the current status of foreign investment. QFF welcomes the register as it is an important tool in understanding this important policy area. However looking at the policy holistically, it appears the government has missed an opportunity to promote the value of Australian agriculture as a place to do business, whether that be through local investors in family or corporate structure, or foreign investors through the same structures. Of course foreign investment must be in the national interest, it must be understood, and it must be on the same playing field of regulation and tax that face us all. But we must be available to overseas business, in line with the same open door approach that we expect in free trade agreement negotiations with our trading partners. To cite a positive example, the foreign owned Maryborough Sugar Factory has been named by growers in that region as being responsible for revitalising the local industry at a time when there were questions about the region's long-term future. This may not have occurred without MSF's investment and capital. There are negative aspects to foreign investment as well, and these risks need to be taken into account, but it is critical that policies in this area are well considered and don't deliver unintended negative consequences to our industry.

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