cutting through complexity

News

Media Release

Demystifying Chinese Investment in Australian Agribusiness

Important choices to be made

Despite perceptions that Chinese investors are buying up large areas of Australian farmland, new research has found that China is not yet a major agricultural investor in Australia, and in fact, may own less than 1 percent of Australian farmland.

The latest report into Chinese direct investment by KPMG and The University of Sydney's China Studies Centre - *Demystifying Chinese Investment in Australian Agribusiness* - provides clarity on the current scale and composition of Chinese large-scale commercial investment into the Australian agricultural and agribusiness sectors[i]. It analyses the realities facing China's food demand patterns and outlines practical intiatives Australian companies should take to attract more investment.

"This is an important debate and now is the time to have it. Australia has important choices to make," said report co-author Doug Ferguson, Head of KPMG's Asia Business Group.

"China is not only Australia's largest trading partner, but also the largest trading partner of more than 120 economies – many of which are competing for agricultural trade and investment, including New Zealand. Foreign investment in the agribusiness sector is a complex and confronting issue for many in industry, government and broader society. As a result of this focus, Chinese companies feel cautious about engaging with Australian agribusiness."

The research has found that, unlike very large-scale investment into the mining and LNG sectors, Chinese investment in Australia's agricultural sector commenced only quite recently and has been relatively small in total value and transaction volume.

"Our database shows a total of only 10 completed deals, with an accumulated value of US$1.05billion invested in the Australian agricultural sector since 2006," said Professor Hans Hendrischke of the University of Sydney Business School.

"Last year, Chinese investment into Australian agriculture accounted for less than 3 percent of the total Chinese overseas direct investment into Australia, including the Cubbie Station deal. Overall, between 2006 and 2012 only 2 percent of Chinese investment to Australia has gone into agriculture."

By the end of 2012 China ranked the ninth largest foreign agricultural investor in Australia, at 3 percent of the total outbound direct investment (ODI). This is well behind the USA at 24 percent, the UK at 14 percent, Japan at 10 percent, and even Singapore at 4 percent.

“Foreign companies are estimated to own 11.3 percent of Australian land and Chinese companies appear to own less than 1 percent of Australian farmland,” said Professor Hendrischke.

New South Wales attracted nearly 50 percent of completed Chinese agribusiness investment in the research period, followed by Queensland (40 percent), Western Australia (5 percent) and Tasmania (5 percent).

Deal sizes tended to be smaller than other sectors, with 60 percent of Chinese investment in deal sizes of US$5-25 million. Only 10 percent of deals were valued at US$500+ million.

The report identified four characteristics distinguishing Chinese ODI in Australian agribusiness from those of other countries:

- investment is driven by food safety over food security;
- an exploratory approach;
- diversity of ownership; and
- a preference for controlling investment stakes.

Food safety over food security

The underlying driver for investment was found to be the demand for diverse and high quality agricultural products, rather than fulfilling long-term food security objectives. The areas of greatest demand are meat, dairy, wine, vegetables and other processed, branded goods – where Australia’s agricultural industry has competitive advantage and is able to provide reliable supply of premium and safe products.

The consequence of the shift from food security to food safety is a shift in commercial strategies. Food security was served by export of bulk agricultural commodities and was heavily reliant on government-to-government policy initiatives. Food safety is market-driven and reliant on industry initiatives and niche strategies.

“It is important that we understand the future food needs and realities which the broader Chinese population faces as the growing new middle class changes its dietary consumption habits. Exponential growth opportunities exist for Australia’s food industry to supply safe, premium meat, dairy, wine, vegetable and processed, branded products to China’s 300+ million middle income classes,” said Mr Ferguson.

“This target market for Australian food shows rapidly developing westernised consumption habits and diets, and will grow to 630 million people by 2022. Consumers have choice and are concerned about the safety of their food. They prefer foreign produced and imported processed food, due to low levels of trust in locally grown and made products.”

Exploratory approach

Chinese investors are exploring commercial opportunities as well as modes of cooperation and integration across a variety of agribusiness industries. They are also accumulating experience to better manage the complexity of investing and operating Australian agribusinesses. The research found that only three of the 10 Chinese enterprises that have made investments had meaningful prior operational experience in the international agribusiness sector.

Tendency to take major investment stake

Private Chinese companies are playing a more active role compared to other sectors such as mining and gas, where State Owned Enterprises (SOE's) have dominated. By accumulated deal value, private investment accounted for 35 percent of investment. By volume transactions, private investment accounted for 67 percent of the total number of deals.

Chinese investors in the agricultural sector have a higher tendency to take majority stakes when investing in agribusiness in Australia.

"This is probably due to the fact that agricultural assets tend to be smaller than mining, gas or energy projects. Another possible explanation is the family ownership model and an ageing workforce in the Australian agricultural sectors. The increasing attraction of higher income employment away from farming for Australians who would otherwise be next generation farmers means that Australian owners have less incentive to keep equity," said Professor Hendrischke.

Australia's fragmented family owned farming model is coming under increasing financial and social pressures which may restrict our ability to fully capitalise on growth opportunities. The core issue of farm profitability needs to be addressed.

Chinese investors are part of the solution

According to the report's authors, Chinese investors can and should play a major role in the solution.

"Australian companies need partners who understand complex Chinese and Asian market dynamics with strong domestic links to reach new markets quickly and profitably. Australian agribusiness needs capital partners to co-invest into primary production and integrated food processing industries to realise economies of scale," said Mr Ferguson.

"We clearly need to educate and incentivise more young Australians to consider a return to agricultural careers. China can also provide university qualified skilled agri-science graduates on appropriate working visas to supplement local talent and ensure we can meet demand at peak seasonal periods."

The role Australia must play

"Reducing tax, improving labour market productivity, reducing bureaucratic red and green tape and speeding up investment and project approvals are all mainstream issues which Chinese investors are watching very closely before committing to new investment projects," said Mr Ferguson.

On the government front, a Free Trade Agreement (FTA) is very important to Australia's agribusiness future with China; and Memorandums of Understanding (MOU's) are becoming an increasingly popular vehicle to open commercial opportunities, particularly at state government level.

But the private sector has a big role to play in ensuring the future success of Australian agribusiness.

"We believe that Australian food industry companies and representative bodies must unite, agree and specifically identify key priorities and work constructively with governments to deliver meaningful, pragmatic outcomes," said Mr Ferguson.

Practical steps

The report outlines a number of practical initiatives Australian agricultural companies should undertake.

- Don't wait for the completion of an FTA. Instead seek to leverage existing MOU's and other relationships already in place through state governments.
- Get to know your target market. Companies need to develop a differentiated approach to the China market, due to the size and significant variability between provinces, cities and companies.
- Build your own trade and investment partnerships. Build networks with advisors and government bodies to introduce you to visiting Chinese delegations and start a dialogue.
- Become more culturally aware and skilled to address new Asian customers. Australian businesses need to up-skill in Asian business practices.

"The way that we feel about Asian investment must change to be more pragmatic and objective. There is much work to do on both sides. For Australia, a huge public education program which sets out the facts, explains the realities of Australia's future with Asia and China and encourages respectful, positive approach is critical."

"Chinese investors need to appoint and retain business leaders who are willing to explain their strategies and long term objectives, integrate with Australian workers and communities, ensure high levels of governance and compliance, demonstrate that a fair share of tax is being paid and avoid actions that increase public concerns and perpetuate negative views," concluded Mr Ferguson.

***Demystifying Chinese Investment in Australian Agribusiness* is being launch on Tuesday 29 October by Andrew Stoner, Deputy Premier of New South Wales, at the Sydney China Business Forum.**

The report can be downloaded from kpmg.com.au or http://sydney.edu.au/china_studies_centre

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[i] The dataset is compiled by a joint KPMG/University of Sydney team and covers investments into Australia made by entities from the People's Republic of China through M&A, joint venture and greenfield projects. The dataset also tracks Chinese investment by subsidiaries or special purpose vehicles based in Hong Kong, Singapore and other locations. The data, however, does not include portfolio investments such as the purchase of stocks and bonds, which does not result in foreign management, ownership or legal control. For consistency, the geographic distribution is based on the location of the Chinese invested company and not on the physical location of the actual investment project. Completed deals which are valued below USD 5 million are not included in our analysis, as such deals consistently lack detailed, reliable information.