

Sale of the century: Foreign investors harvesting Australian agribusiness

In the last 12 months we have seen a significant turnaround in the fortunes of the Australian agribusiness sector. The end of the drought in many parts of Australia and improved commodity prices have resulted in a renewed optimism and hope for many rural communities.



Coinciding with this turnaround in fortunes has been a significant increase in the amount of Australian farmland and agribusiness purchased by foreign investors. In the last year this has totalled more than \$12 billion, stimulating spirited debate about whether this is a good or bad thing for agribusiness in this country.

In this issue of *Ferriers Focus* we look at the reasons why overseas entities are keen on Australia's agribusiness assets and the impact of the increased foreign investment on our agricultural sector.

Australia: a good place to invest

Foreign investment is nothing new to the Australian agribusiness sector as British, American, New Zealand and Japanese companies have held significant investments for decades. It is not surprising that overseas entities recognise Australia as an attractive place to do business because it has:

- A stable economic and political system
- A reputation for high quality and safe production
- High productivity and well-developed managerial skills
- Close proximity to Asian markets
- A strong history of animal health (eg: no foot-and-mouth disease)
- Counter seasonal to the northern hemisphere

In addition, global population growth of one per cent per year and increased food consumption per capita is boosting total global demand for food. It is hardly

surprising, therefore, that food scarcity, continued global economic uncertainty and improved growing conditions across much of Australia have resulted in agricultural investment becoming increasingly attractive to all investors, particularly amongst our northern neighbours.

Foreign interest at an all-time high

Over the past 12 months we have seen the sale of many well-known agricultural land and agribusiness enterprises to foreign interests, including:

- CSR Sugar in New South Wales sold to Wilmar International of Singapore for \$1.75 billion
- AWB sold in 2010 to Agrium Inc of Canada for \$1.2 billion, with its commodity business subsequently sold to US-based Cargill for \$79 million
- 252,000 hectares of farm land in Victoria's Western District sold to Canada's Alberta Pension Fund for \$415 million



- MSF Sugar in Queensland has entered into a conditional sale agreement with Mitrol Phol Sugar of Thailand for a reported \$313 million
- Tully Sugar in Queensland sold to China Oil and Food for \$136 million
- 8,500 hectares of farm land in Victoria's Western District sold to Hassad Foods of Qatar for \$35 million
- Larundel Estate in Victoria sold to Chinese interests for \$14 million
- The former Kyabram Dairy Research centre in Victoria sold to Chinese interests for \$1.8 million
- A Chinese government-controlled mining entity purchased 43 farms near Gunnedah, New South Wales, in relation to potential coal deposits, for an unknown price
- Mount Falcon Station in New South Wales sold to Chinese interests for an unknown price
- Great Southern land group sold four Victorian properties to Chinese interests for an unknown price
- AAcO, Australia's oldest continuously operating company, sold 19.9% to an international conglomerate owned by Middle Eastern and Malaysian interests

Foreign investment benefits

Australia has been the beneficiary of foreign investment in agriculture for as long as it has been a significant industry in this country. The most critical benefit of foreign investment is the delivery of capital to a sector that sometimes struggles to find funding from other sources. This flows through the broader rural economy to provide regional spending and employment.

Foreign money also impacts on rural land values, with the purchase prices offered by foreign investors providing a valuable exit strategy or succession plan for farmers looking to wind up their involvement in the sector.

At the same time, foreign investors can bring to regional communities foreign expertise and access to global markets. This is particularly valuable in the processing sector, where new markets and modern processes can breathe life into stagnant businesses that have failed to maintain pace with innovations in their specific niche.

What is the national interest?

However, over the last few years the raft of agribusiness sales, combined with concern over the lack of regulation over foreign purchases, has led to an outcry by many farmers, land owners and South Australian Independent Senator Nick Xenophon. The populist media has played a role in bolstering concern that foreign investors may one day be in a position to compromise Australia's ability to feed itself.

In November 2010, Senator Xenophon, with the support of the Greens, introduced a private members bill seeking an amendment to the Foreign Acquisition and Takeover Act 1975 (the Act). The bill sought:

- 1 To amend the Act to implement a national interest test against proposed foreign acquisition of agricultural land.
- 2 To require the Federal Treasurer to be notified of any foreign acquisition of land greater than five hectares (at present, the Foreign Investment Review Board only assesses foreign purchases of farm land valued at \$231 million and above, which is above the value of the vast majority of agribusiness transactions).

They proposed a national interest test that would require the Treasurer to have regard to the following factors in determining whether the acquisition of an interest in agricultural land is contrary to the national interest:

- National security issues, including Australia's ability to protect its strategic and security issues
- The impact on competition and global market outcomes
- Any impact on tax revenues
- Any impact on, or benefit to, the Australian economy and community including:
 - Job opportunities and retention of labour
 - The introduction of new technology or business skills
 - Increased export receipts for Australian exporters
 - Greater efficiency or productivity, or enhanced domestic services
 - Additional investment for development purposes
 - An increase in Australia's capacity to process Australian primary products



- Whether Australia's economic interests are safeguarded and promoted (including the examination of issues of aggregation and vertical integration)
- Mitigating factors to assess whether an investment will allow for Australian oversight and involvement, such as an Australia-based head office or whether Australian directors will be appointed
- The character of the investor (including business experience and acumen relevant to the acquisition, financial commitment to the acquisition and good character)

The proposed national interest test would also extend to allow the Treasurer authority to direct a foreign person to dispose of an interest if the Treasurer is satisfied that the agricultural land was acquired contrary to the national interest.

The subsequent Senate Inquiry recommended that the Bill not be passed on the grounds that foreign investment should be encouraged and the national interest test was already covered by the Foreign Acquisition and Takeovers Act. There was also concern from the Senate Committee regarding the potential for the national interest test to become a prescriptive test.

However, the popular backlash against foreign investment in agricultural land continued, and led to a new Senate Inquiry in July 2011. The purpose of the new Inquiry is to examine the national interest test and, inter alia, how it has been applied to purchases of Australian agricultural land by foreign companies, foreign sovereign funds and other entities in the preceding 12 months.

The Senate Committee has received written submissions, held a public hearing and has pushed back its reporting deadline from November 2011 until March 2012.

Is foreign investment in the national interest?

There have been many stakeholders who have voiced negative opinions about the increasing levels of foreign investment in Australian agricultural land, which has undoubtedly been a factor in the government's decision to give the green light to the second Senate Inquiry.

Most concerns continue to focus on the risk to Australia's food security and whilst the true impact of foreign

In the field...

Over the last few years Ferrier Hodgson has been involved in a broad cross-section of agribusiness assignments across Australia. Here are just a few:

Miandetta Farms

Receivers and Managers

- QLD-based 2,000 sow piggery with 100 ha of asparagus and \$10m in debt.
- Traded the business until sold as a going concern.

Meat Packing Industry

Strategic business review

- Beef and lamb wholesaler and meat processor in WA with a turnover of \$100m.
- Restructured the business.

Harvey Beef

Voluntary Administrators

- WA's biggest abattoir/beef producer with \$56m in debt.
- Realised the business and paid creditors 100 cents in the dollar plus 8% interest.

Corboy Fresh Fruit

Receivers and Managers

- One of Victoria's largest apple, pear & stone fruit orchards with \$12m in debt.
- Restructured the business and maintained the orchards and packed out remaining fruit before selling it as a going concern.

Great Southern

Administrators/Liquidators

- Publicly listed agri-based MIS provider, which raised over \$2.2bn in MIS sales from 52,000 MIS investors, in plantation timber, horticultural business and cattle station investments across Australia with debt in excess of 1bn.
- The assignment is ongoing.

Hi-Fert

Voluntary Administrators

- A fertiliser distributor and JV operation conceived by Elders Ltd and Landmark Operations with nine distribution centres in VIC, SA, NSW and QLD and a turnover of \$292m in 2010.
- Assisted financiers and secured creditors conduct an orderly realisation of the business as a going concern.

Equine Industry

Receivers and Managers (private appointment)

- High-profile thoroughbred syndicate in NSW with over 200 horses and debt of \$60m.
- Successfully negotiated with stud farms and trainers to ensure all horses were realised.



investment on Australia's self sufficiency is unknown, the issue has certainly become an important agenda item for most countries, and is clearly an issue of national interest.

As an argument against foreign investment, however, this seems hard to support. It is hard to imagine a day when Australia's bountiful produce will be unable to meet domestic demand. Of significant concern to the agribusiness sector are media reports suggesting that as much as \$14 billion of potential foreign investment has been put on hold pending the outcome of the enquiry.

The delay or denial of that sort of investment would have a damaging impact on any industry. If nothing else, it has injected the sector with uncertainty about the future and clouded the outlook for many Australian agricultural businesses.

As the emotive rhetoric surrounding the topic continues to ratchet up, we are waiting to see whether the Senate Committee's report in March 2012 will suggest changes to the current national interest test and/or the current review limits (ie: above \$231 million) for foreign investment.

How can Ferrier Hodgson help you?

Ferrier Hodgson's experienced agribusiness specialists are available to provide strategic and practical advice on all sectors of the Australian agribusiness industry. We recognise that to get the right outcomes you need the benefit of genuine hands-on expertise. Ferrier Hodgson is able to offer a powerful combination of its own staff with real industry experience, together with a range of rural and agribusiness experts who bring deep industry knowledge to assignments. Our people are well regarded in their fields and provide:

- Strategic reviews and business plans
- Business viability and pre-lending reviews
- Forecast models for profit and loss and cash flows
- Financing and capital requirements
- The preparation and execution of turnaround, restructure and exit strategies
- Assistance in stakeholder negotiations
- Corporate recovery services

Please contact us if you require advice in any of these areas or if you would like to discuss exposure to the agricultural sector.



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