



Australia China Business Council
澳大利亚中国工商业委员会

BEYOND 'BUYING THE FARM'

CHINESE INVESTMENT IN THE AUSTRALIAN AGRIBUSINESS SECTOR

28 FEBRUARY 2017



IBDO

Welcome

One of the highlights of the Australia China Business Council Victoria (ACBC) calendar during 2017 was our Agribusiness Summit 'Beyond Buying the Farm: Chinese investment in the Australian agribusiness sector'.

With over 250 people in attendance, the Summit brought together a broad range of senior stakeholders from across the agribusiness and investment sectors including Australian and Chinese businesses, government and media.

Based on the extensive work carried out by our Agribusiness & Food Working Group, the Summit highlighted the importance of ongoing bilateral collaboration to build greater understanding of the opportunities and challenges surrounding Chinese investment in Australian agribusinesses.

As this Summit Report and audio recordings highlight, there is an incredible wealth of information available to help businesses succeed – and we are pleased to make this content available to you and your respective organisation.

As CEO of ACBC Victoria, I would like to thank the Agribusiness & Food Working Group for their support and, in particular the group's Chair, Barry White, for his tireless energy and attention to detail which was critical in bringing this event to fruition.

I would also like to take this opportunity to thank our event sponsors, BDO, the Commonwealth Bank of Australia and CPA. Without their generous support, this event would not have been possible.

Finally, I would like to thank the attendees who made the commitment to attend the summit. I hope the take-aways have given you greater insight into the issues and pathways to successful Chinese investment in Australian agribusiness.

I look forward to seeing you at future ACBC events throughout the year.

Yours sincerely



Virginia Birrell
CEO ACBC Victoria

Summit Overview

Since 1973 the Australia China Business Council (ACBC) has played an important role in enabling a dialogue between the business communities of Australia and China. Through an exciting calendar of events, conferences, seminars and publications, ACBC provides members with the opportunity to engage with government and industry issues impacting on bilateral business, trade and investment.

As part of this offering to members, ACBC Victoria's Agribusiness & Food Working Group is pleased to present this report prepared following our 2017 Agribusiness Summit - 'Beyond Buying the Farm'.

Aimed at shining a positive light on Chinese investment in the Australian agribusiness sector, the event welcomed over 150 attendees and brought together key figures in the agricultural investment community to address many of the issues surrounding the investment debate.

Foreign investment and ownership of our natural resources and farmland is one of the most emotive and contentious subjects in our country. However, foreign investment has long been a pillar in the development of our agriculture and food sector. Without foreign investment and particularly from our largest trading partner China, bringing with it not only vital capital but also new business partnerships, new markets and distribution networks, and importantly, employment growth, we will never realise the full potential that agriculture offers Australia.

While an enormous opportunity exists to grow our agricultural trade with China, with hundreds of billions of dollars in extra revenue from our agricultural trade over the coming decades, lack of investment remains a major constraint. In fact, some reports suggest that Australia will need to attract as much as \$1 trillion by 2050 if we are to realise the full potential of the sector.

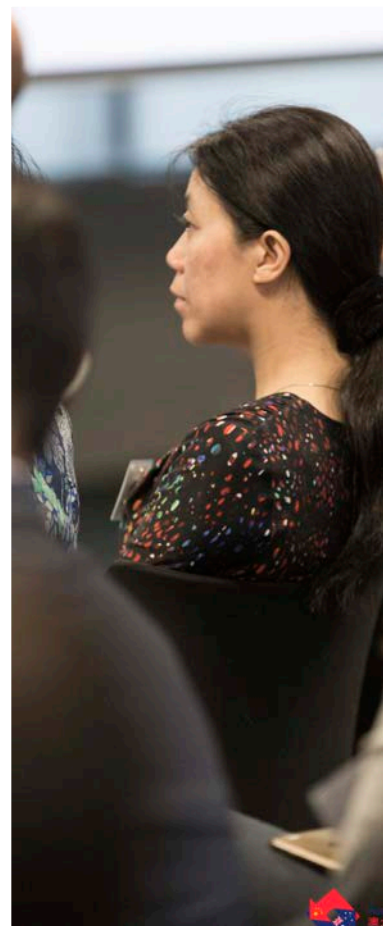
In attempting to combat this investment shortfall, the identification of specific areas which offer the greatest return to investors and the successful navigation of our investment approvals process by prospective Chinese investors will both be vital.

The event sought to address these areas and change the direction and tone of conversation around an issue which has often been clouded by politics, emotion and misinformation. Ultimately, the forum stressed the vital need for collaboration and foreign investment in the Australian agribusiness sector.



Barry White

ProEx Developments Pty Ltd
Chair, ACBC Agribusiness & Food Working Group
ACBC Victoria Committee Member



Summit Address



ZHAO JIAN

Consul General of the People's Republic of China in Melbourne

The comprehensive strategic partnership Australia and China agreed to in 2014 was a formal recognition of an ongoing relationship between the two countries that is based on mutual respect, mutual trust and mutual benefit. China is now Australia's largest trading partner, and bilateral trade between the two nations has risen to US\$1000 billion.

Mr Zhao was keen to point out that this investment relationship is one that is bringing benefits to both sides. While Australia needs capital for investment across a range of sectors, China wants to build a nation of prosperity that can meet the needs of its people. To do so, Mr Zhao said the country has a demand for more premium quality agricultural products. China's ongoing relationship with Australia ensures a stable supply of agricultural products for its people, while helping agribusiness in Australia to evolve and grow.

Importantly, Mr Zhao reminded attendees that China is currently the world's fastest-developing country and has space to keep growing. China will maintain a medium-high rate of growth, and in the next five years is expected to import US\$5 trillion of goods, attract \$600 billion in foreign investment and make \$750 billion in outbound investment. This will create a bigger market, leading to more capital, more products and more opportunities for other countries like Australia.



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Introduction



BARRY WHITE

Chair
ACBC Agribusiness & Food
Working Group

As acknowledged by MC, Barry White, the ACBC Summit played host to some of the most eminent and experienced people in Australia with regards to foreign investment in the agricultural sector. He noted that foreign ownership of Australia's natural resources and farmlands is currently one of the country's most contentious public issues, one that becomes even more controversial when Chinese investment is involved.

Barry pointed out that what people do not always realise is that without Chinese investment, Australia would likely struggle to source sufficient capital to realise the full potential of its agriculture industry. As Australia's largest trading partner, China provides capital and can also open doors to new partnerships and markets for Australian businesses.



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Host's Remarks



MURRAY CHENERY

Executive General Manager
Brand
CPA Australia

Murray discussed how CPA Australia is one of the world's largest accounting bodies. It has 22 offices across the globe that support 160,000 members working in almost 118 different countries. Of that membership base, 25,000 are in leadership positions.

The organisation has been active in Asia since the 1950s, with Murray describing how its engagement in the region began in Hong Kong, Kuala Lumpur and Singapore. Its membership continues to grow and has reached more than 17,000 in the Greater China region.

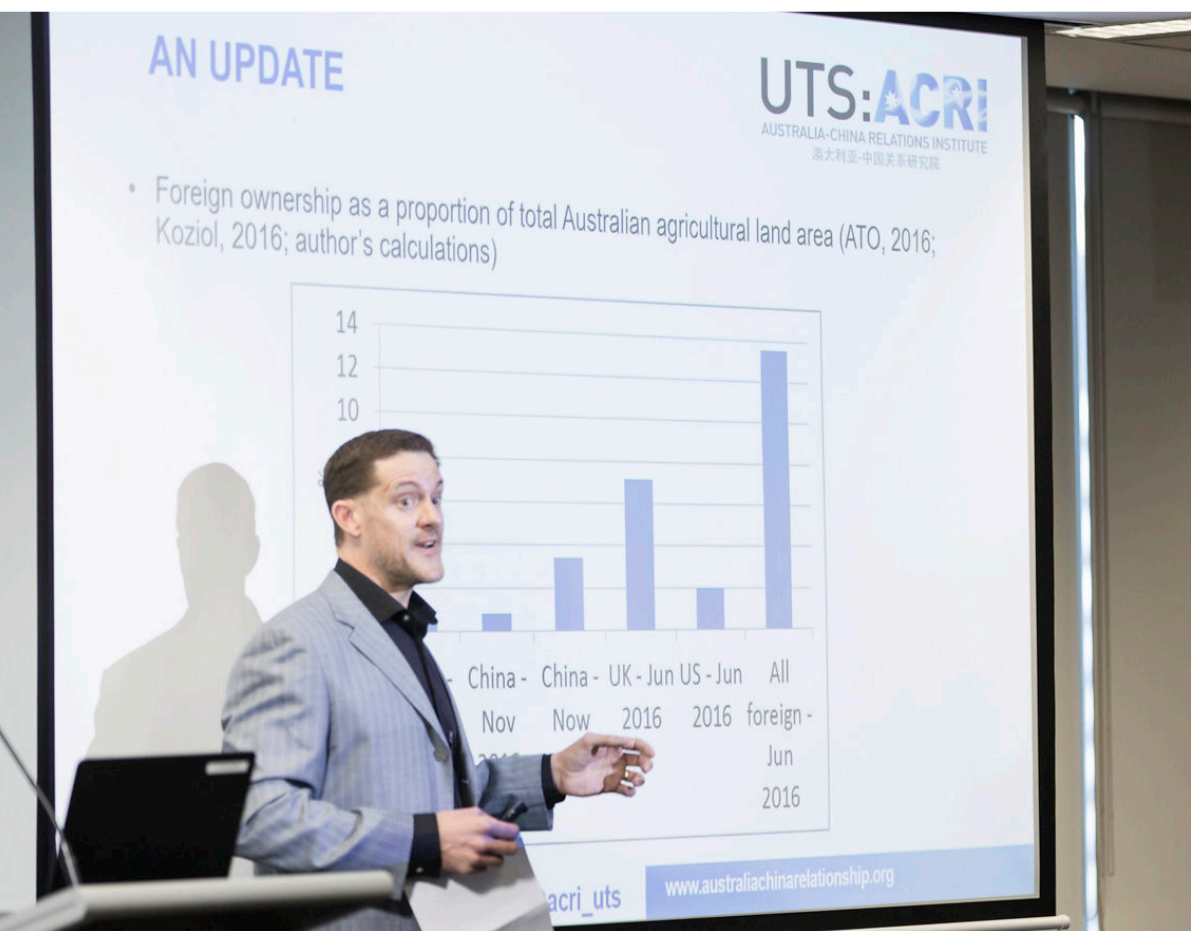
Murray also described how important foreign investment has been throughout Australia's history, dating back to the 1800s. The country's continued prosperity relies on these trends continuing, with the agriculture sector alone in need of \$1 trillion in investment to double the real value of its exports by 2050.



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SESSION ONE

HON ANDREW ROBB AO
CHAIRMAN, ASIALINK & ASIALINK BUSINESS



How can Australian businesses take advantage of opportunities in China?

SESSION SUMMARY

China is Australia's largest trading partner, but Australian businesses are not making the most of the opportunities they have to invest in the country. China needs investment in its services sector, and Australia is in a prime position thanks to the many services concessions offered under the China-Australia Free Trade Agreement. However, these opportunities will eventually be rolled out to other nations.

Mr Robb also discussed the wider political climate and how it may or may not affect relationships in the region, with a specific focus on the Trump Administration. While it is difficult to clearly map President Trump's ongoing influence, if he continues to act with a protectionist mindset, it could create opportunities for Australia to serve various growing Asian markets.

KEY TAKEAWAYS

- More Australian companies are operating in Dubai than India or Indonesia, despite their growing middle classes and increasing development. These present major opportunities that are being missed.
- Joint venture opportunities are the way to go for Chinese businesses looking to invest in Australian agribusiness and services. They create more capital for local businesses, and also give them a door back into China.
- Australian businesses are often frustrated by Chinese food standards. While they are inspired by high Australian standards to an extent, they aren't carbon copies. The right local investment partner is essential when it comes to managing these.
- If President Trump follows through on a promise to lower business taxes, it will stimulate the global economy. The result will likely see the US dollar pushed up and the Australian dollar down, making Australia more competitive in export markets.
- Australia's brand is extremely strong in China, and is linked to clean, green and safe imagery. Australian businesses cannot compromise on quality, as their products are expected to be premium products.



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SESSION TWO

BRIAN WILSON

CHAIRMAN, FOREIGN INVESTMENT REVIEW BOARD



What is Australia's current foreign investment landscape?

SESSION SUMMARY

There are three hot button issues for the public when it comes to foreign investment - critical infrastructure, agricultural land and residential real estate. The Foreign Investment Review Board's (FIRB) job is to act on behalf of Australia's national interests, and ensure any incoming investments are not going to negatively impact this.

Recently, the Australian Federal Government reduced the threshold for FIRB reviews of agricultural land and agricultural business investments. For most business acquisitions, there is a \$250 million threshold, which rises to \$1 billion for countries Australia has a free trade agreement with. However, it is hard to find agriculture assets or agribusinesses that are at that value, so the government reduced thresholds to \$15 million for land and \$55 million for businesses to draw things into the net for review.



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KEY TAKEAWAYS

- A large part of needed investment in Australian agriculture must come from international sources and go into areas where Australian investors are not able or prepared to invest.
- There are a number of factors, beyond the usual national interest factors that are important to the general public and FIRB assessments. These include transparency of pricing, open access to essential infrastructure and impact on local regions and communities.
- The FIRB has reviewed around 500-600 business cases per year over its 20-year history. In that time, there has been only five high-profile rejections. However, the media attention given to these rejections far outweighs that which is given to the approvals.
- Half of Australia's general population believes the current level of foreign investment is too high, and a minority think it should be banned altogether. It is an emotive reaction that does not take into account the economic facts.
- The FIRB's objective is to review investment proposals based on a range of criteria, such as their impact on the economy and community, national security and competition. This is taken into account alongside its compliance with laws and the character of investor.
- The Australian public needs information to make decisions. Over time, they will become more familiar with foreign investment, as long as companies are transparent.
- FIRB acknowledge that the 30 day deadline for the processing of applications has shifted somewhat over the last twelve months, with the pressures of bedding down the new arrangements and responsiveness of other government agencies as part of the process. Mr Wilson expressed his empathy for the vendors and the investors and hopes that this will improve so that applications are quick and easy.

SESSION THREE

MICK KEOGH
CEO, AUSTRALIAN FARM INSTITUTE



What is China's role in the future of Australian farming?

SESSION SUMMARY

Australia's export destinations are often prime candidates for investment back into the Australian agribusiness sector. These overseas investors are often patient, and are willing to acquire a property portfolio over time. It is important that Australian agribusinesses remain attractive candidates for foreign investors, as Australia will rely on capital investment to grow its farming sector.

This is largely due to the fact that sustainable growth in agricultural output is heavily dependent on an increase in productivity. There are only limited opportunities for agricultural land expansion so new technology and greater efficiencies will make the most difference to total output.

KEY TAKEAWAYS

- There are differing opinions with regards to foreign investment from Australians in city and rural areas. Those in urban environments are often more resistant to these activities.
- Future growth will depend on consolidation of smaller farms, a willingness to embrace new technology and production systems that operate at a higher intensity.
- China is now Australia's biggest export market for agricultural products. Second place (the US) has approximately half the significance of China.
- Investors need to have a long-term strategy when investing in Australian agribusiness. It will be difficult for them to achieve either quick entries or exits.
- Australian agricultural production systems are different to those used overseas. One major critical success factor will be the availability of skilled and experienced Australian management talent. Those that have been successful so far in their agriculture investments are those who have relied on local management as part of the operation.
- Joint venture partnerships seemingly provide lower risk investments but also secure strong supply relationships and local expertise.



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SESSION FOUR

PROFESSOR JAMES LAURENCESON
DEPUTY DIRECTOR OF AUSTRALIA-CHINA
RELATIONS INSTITUTE, UTS

How is the public responding to Chinese investment in Australian agriculture?

SESSION SUMMARY

Professor Laurenceson drew on survey findings to explain that, while there is some public hesitance toward Chinese investment in Australia, it is not nearly as bad as portrayed. There is also one clear condition that can drastically affect public perception toward investment from any country: The percentage of total ownership a foreign investor takes.

In this respect, a joint venture partnership does not just make sense from a business perspective, but from a public relations one as well. Public sentiment is extremely influential, so it is important that businesses are open and transparent with regards to these activities. After all, the interests of the Australian public is half the reason the FIRB exists.

KEY TAKEAWAYS

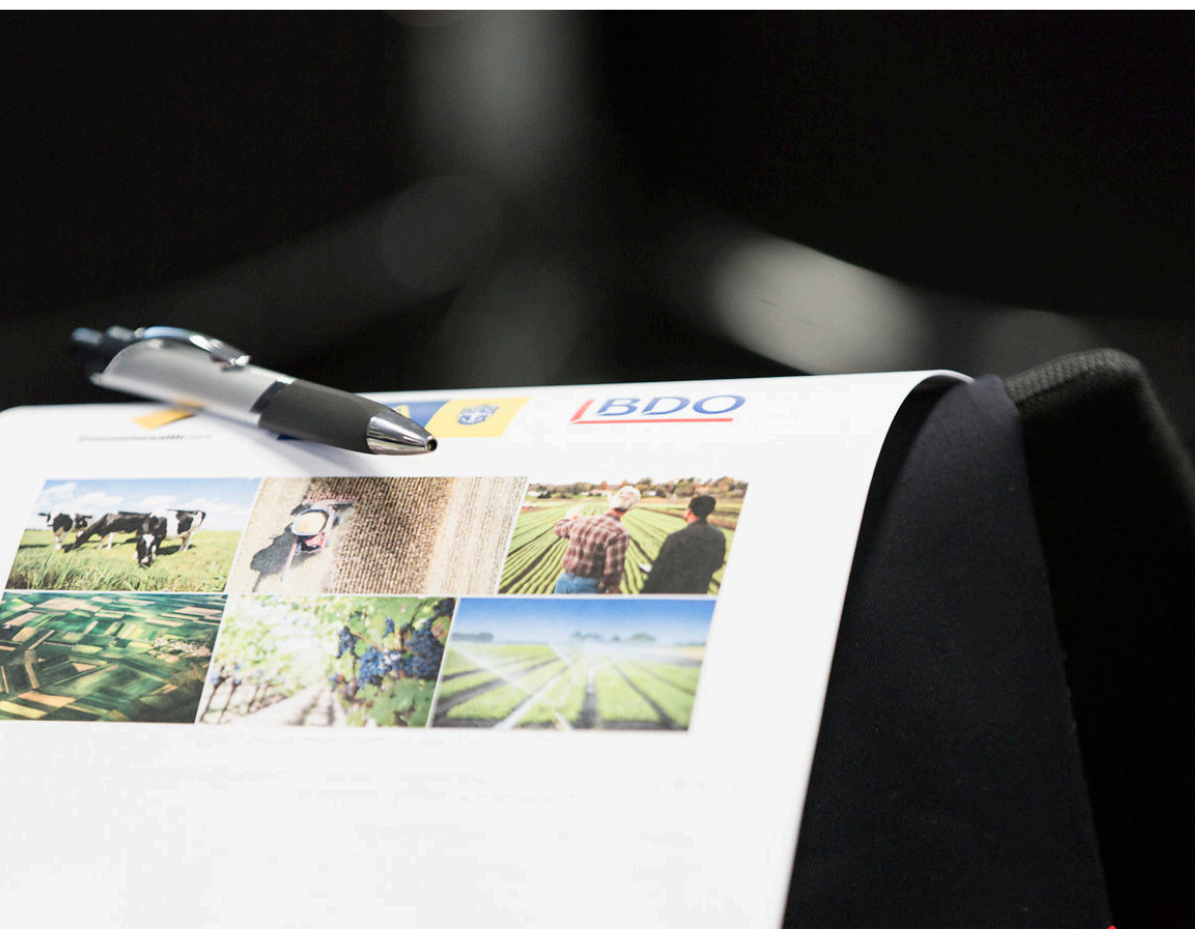
- The data regarding foreign ownership can be difficult to work out, requiring people to comb through multiple Australian Bureau of Statistics releases.
- Chinese investment in Australian agricultural land is small (0.5 per cent) but it is growing very quickly.
- The land register is not the most effective record of foreign ownership, as it tracks the area of land owned rather than its actual value.
- According to the Organisation for Economic Co-operation and Development (OECD), Australia is more open to foreign investment in agriculture than China, but not by as much as is often claimed.
- A survey from the Lowy Institute investigated which sectors have the least support when it comes to foreign investment. Unsurprisingly, agriculture ranked highly, reinforcing the value of building public confidence by communicating the positive effects certain investments are expected to have.
- A survey by UTS researchers found the Australian public is indifferent to whether an investment comes from a foreign privately owned enterprise or one that is state-owned. The public also prefer bigger dollar deals to smaller ones. These findings sit uncomfortably with trends in Australia's foreign investment approvals regime.



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SESSION FIVE

LYALL HOWARD

HEAD OF GOVERNMENT RELATIONS, BLACKMORES



Government and community relations for Foreign Investors

SESSION SUMMARY

Australia has always relied on foreign capital as opportunities for investment far exceed the capacity of domestic savings. For example, the Pilbara iron ore industry that made Western Australia so prosperous was first funded with American capital. While Australia had the resources, it did not have the capital to build mines, rail and port infrastructure to develop the industry.

This need for foreign investment into Australia is not going to change, however, executing foreign investment deals requires sophisticated engagement with the Government. In most cases, this will require the use of people who are experts at dealing with all levels of government and keeping these communication lines open.

KEY TAKEAWAYS

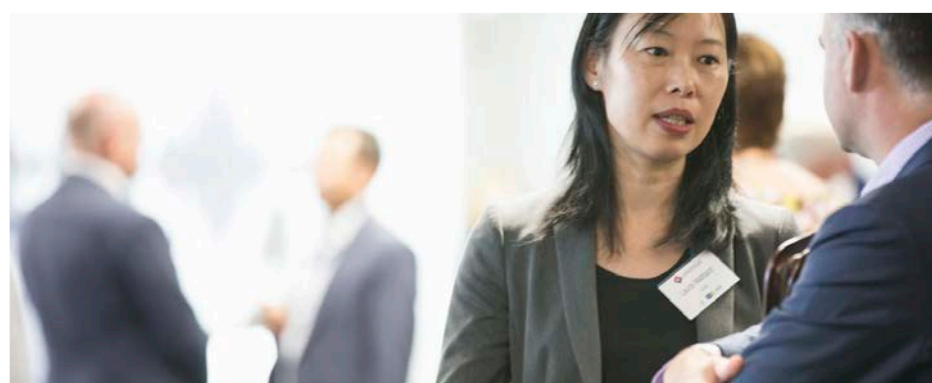
- Companies that are engaged in talks with foreign investors should not think they can fly under the radar. The media will pick these stories up as they remain a hot-button issue for the general public.
- It is important to go beyond the ministerial wing when pitching investment proposals to the government sector. Backbenchers are just as important, but businesses need to engage them in the electorates they serve.
- Members of Parliament still represent their local communities. Businesses have to understand the links between community politics and what goes on in Canberra.
- Rural communities are less diverse, so businesses have to be aware of the audience they are talking to. Just 11 per cent of people in rural communities were born overseas (compared to 26 per cent in urban areas). There is also less turnover of rural properties than urban properties, which means the emotional attachment to the land and the community is stronger.



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SESSION SIX

NICK DOWLING
MANAGING DIRECTOR AND CEO AUSTRALIA
& NEW ZEALAND, NEW HOPE GROUP CO. LTD



What Chinese firms are looking for in Australian Investments

SESSION SUMMARY

Australian products are viewed in China as clean, green, safe and aspirational – four invaluable attributes to capitalise upon when positioning Australian food and agricultural outputs with the burgeoning Chinese middle class.

Australia also has tremendous scope to leverage its skills and experience in operational and financial management, intellectual property, processing and process technology. Its proximity advantage to the entire Asian region is a significant comparative advantage.

KEY TAKEAWAYS

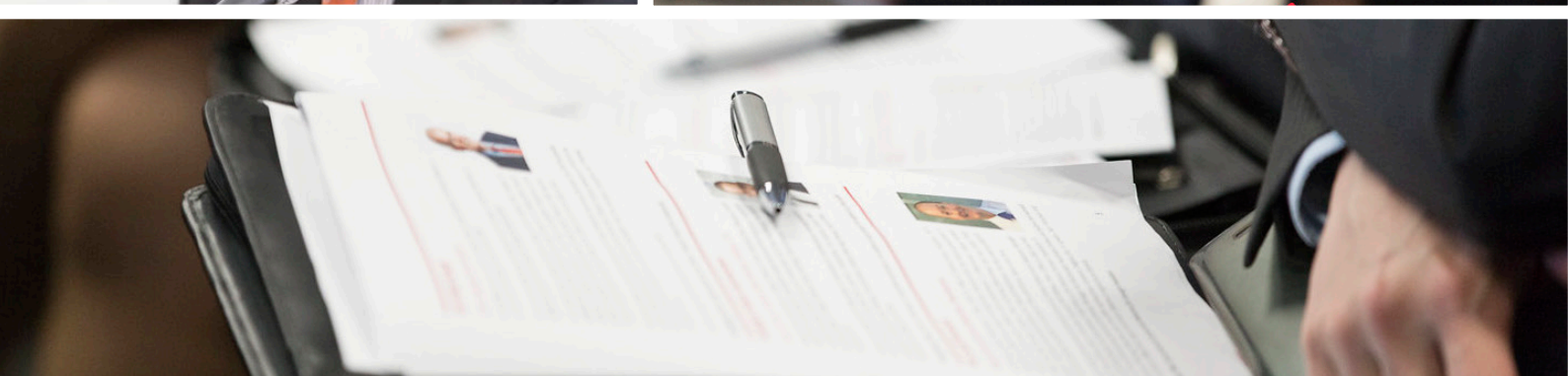
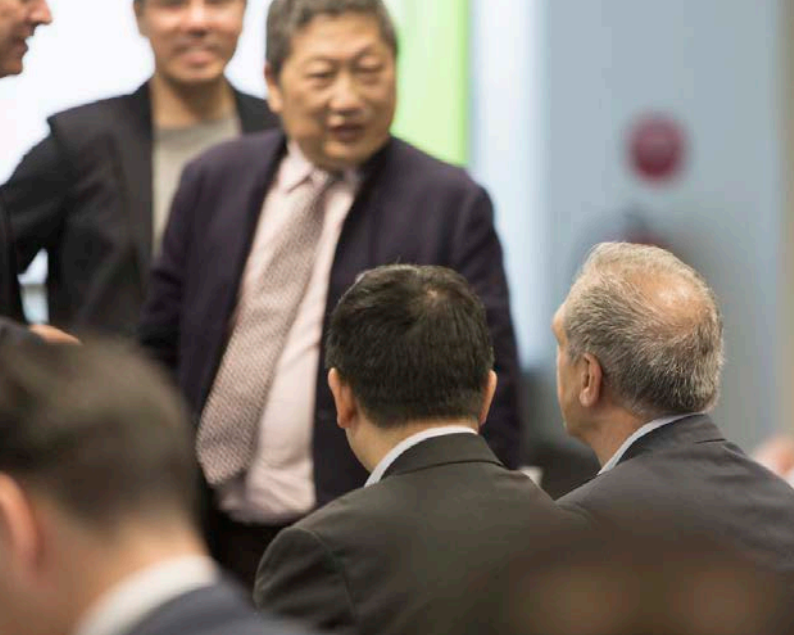
- In 2011, the middle class in Asia comprised 525 million people. By 2030, that number is forecast to rise to 3.2 billion people. Growth in consumption will be mainly driven by China and India, but nations like Indonesia will also play a very significant role.
- Australia's opportunity in Asia will continue to be anchored in the bulk export of grains, but increasingly animal proteins and processed and/or branded food goods will deliver significant margins. Changing dietary habits will also see significant shifts in consumption patterns as we have started to see in products like beef.
- Australia must compete with other export nations for the markets in Asia. To do this, it will be important for Australia to provide an environment that encourages efficient investment and competitive trade advantage.



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SESSION EIGHT

PANEL DISCUSSION

SESSION SUMMARY

Attendees were given time to question the speakers on some of the key issues raised throughout the day. This discussion echoed many of the major trends the speakers presented on, such as the role the public play in the FIRB's rulings and the opportunities Australia is yet to capitalise on.

Overall, while Chinese investment holds many opportunities for the Australian agricultural sector, there are still a number of challenges these businesses need to overcome, such as capitalising on existing international relationships.

KEY TAKEAWAYS

- Australian businesses are not making the most of the multicultural population that resides here. The country is home to a huge number of foreign students and residents born in other countries. These people offer valuable insights and pathways back to their home countries, and can help build relationships between Australian and foreign businesses.
- Successful transactions need to get more publicity. Currently, much of the media discourse is dominated by FIRB rejections, which are a minority of the business cases it reviews.
- Foreign trading partners are often thinking in a global context. Australian businesses need to think in that mindset and consider their role in a potential investor's global operations.
- Agribusiness is not always seen as an attractive industry for Australian school leavers and graduates. There is an opportunity to publicise the full range of supporting roles and sectors that all play a part in the industry's success.



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Acknowledgements

We would like to acknowledge the hard work and support of the ACBC Vic Agribusiness & Food Working Group who made this Summit possible:

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	Mr Robert Wang	Australian Wool Testing Authority
	Ms Green Yang	Agri & Food (Dairy) Austrade
	Ms Laura Mattiazzi	NAB
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As a global firm, BDO has a strong presence in the food and agricultural sector, leveraging knowledge and experience across our BDO offices in China (38 offices) and throughout Asia, to support trade between countries.

BDO Australia's China and Asia Desk, comprising of Chinese and Australian nationals, has significant experience assisting Chinese companies seeking to invest or operate businesses in Australia at every stage of the process – from initial market entry to expansion. Our experts provide coordinated strategic, operational, and technical guidance to support businesses and investors with their existing or planned cross-border activities.

Australia's agribusiness industry continues to be the subject of attention for both domestic and foreign investors, attracting a range of different investment groups. With global uncertainty in the current investment environment, low interest rates, and high values for other asset classes, the returns offered by the Agriculture sector are compelling.

Driving foreign investment opportunities requires investors to have clarity on Australia's Foreign Investor Review Board (FIRB) laws to understand how to be best placed for investment.

BDO has long been a proud advocate and supporter of Australian agriculture. We have long-standing relationships with national and local industry bodies and stakeholders.

As the Food and Agricultural sector continues to expand and change, BDO is immersed in all that this means for business and trade.

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