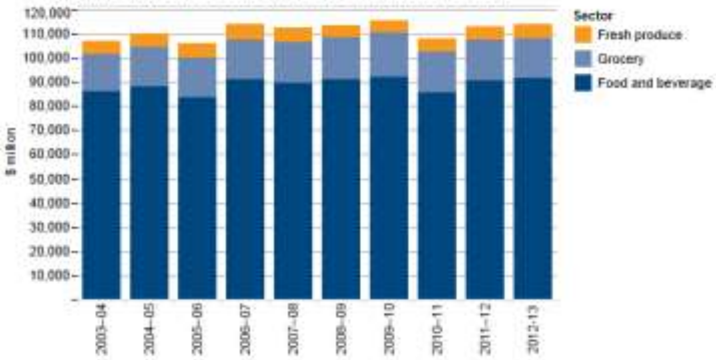
# AFGC SUBMISSION

STRENGTHENING AUSTRALIA'S FOREIGN INVESTMENT FRAMEWORK - OPTIONS PAPER

Sustaining Australia

# PREFACE

Fig 4.1: Composition of the industry's turnover ($2012-13)




Source: Based on ABS, catalogue number 8221.0, 8159.0 and 8155.0
Note: As outlined in chapter 3 of the State of the Industry 2014 report, caution should be applied when comparing data before and after the 2006 ANZSIC code changes.

The Australian Food and Grocery Council (AFGC) is the leading national organisation representing Australia's food, drink and grocery manufacturing industry.

The membership of AFGC comprises more than 178 companies, subsidiaries and associates which constitutes in the order of 80 per cent of the gross dollar value of the processed food, beverage and grocery products sectors.

With an annual turnover in the 2013-14 financial year of $114 billion, Australia's food and grocery manufacturing industry makes a substantial contribution to the Australian economy and is vital to the nation's future prosperity.

Manufacturing of food, beverages and groceries in the fast moving consumer goods sector is Australia's largest manufacturing industry. Representing 27.5 per cent of total manufacturing turnover, the sector accounts for over one quarter of the total manufacturing industry in Australia.

The diverse and sustainable industry is made up of over 27,469 businesses and accounts for over $55.9 billion of the nation's international trade in 2013-14. These businesses range from some of the largest globally significant multinational companies to small and medium enterprises. Industry spends $541.8 million in 2011-12 on research and development.

The food and grocery manufacturing sector employs more than 299,731 Australians, representing about 3 per cent of all employed people in Australia, paying around $12.1 billion a year in salaries and wages.

Many food manufacturing plants are located outside the metropolitan regions. The industry makes a large contribution to rural and regional Australia economies, with almost half of the total persons employed being in rural and regional Australia. It is essential for the economic and social development of Australia, and particularly rural and regional Australia, that the magnitude, significance and contribution of this industry is recognised and factored into the Government's economic, industrial and trade policies.

Australians and our political leaders overwhelmingly want a local, value-adding food and grocery manufacturing sector.

# SUMMARY

Foreign investment is crucial to the future growth and competitiveness of the Australian agri-food sector. The Australian Food and Grocery Council strongly supports an investment framework that provides Australian industry with the flexibility to choose the type of investment capital that matches their needs and risk/reward profile, regardless of whether that capital is from domestic or foreign sources.

Australia's exports of processed food products have recorded more than 17 per cent growth from 2012-13 to 2013-14[1], the second highest growth area after the minerals sector (21.6 per cent). The Australian agri-food sector is at a turning point with the opportunity to meet a share of the growing food demand in Asia. In the same way that the mining investment boom is supporting the current increase in mineral and energy production, the agri-food sector needs a substantial increase in investment to meet growing food demand across Asia.

Additional constraints on foreign investment in the agri-food sector would hamper the ability of the entire agri-food sector to increase production, exports, jobs, profits and revenue. Foreign investment in agribusiness does not crowd out domestic investment. While Australia's pool of funds under management is the third largest in the world, Australian fund managers are generally not attracted to the long term returns but short term volatility of the agri-food sector. Foreign investors in the Australian agri-food sector are typically focussed on business expansion and long term returns.

The agri-food sector interacts with almost all the broader economy through production, technology, transport, marketing and consumption. However the Government's commitments were clearly related to agriculture, reflected in the title of Chapter 7 of the Options Paper "Implementation of Agriculture Commitments". Community concern about foreign ownership of agricultural land and agricultural production may be the drivers for these policy commitments. It follows that 'agricultural businesses' or primary production would be consistent with the policy commitments, and are covered appropriately within Division A of the ANZSIC Code.

Extending the scope of the proposed changes beyond agriculture without a clear public policy imperative will create uncertainty over how far this 'scope creep' might spread. In the absence of a clearly articulated public policy objective and given that the Government's commitments were made in the context of agriculture, it is impossible to identify which elements of the economy interacting with agricultural production might be included or the rationale for including them.

### Options Paper question 7 - Should the definition (of agribusiness) capture all primary production businesses as well as certain first stage downstream businesses beyond the farm gate (for example, meat processing, sugar milling and grain wholesaling / storage / milling)?

For the purposes of the policy commitments on FIRB review the definition of agribusiness should capture all primary production businesses. The definition of agribusiness should not capture first

[1] Austrade 2015

stage downstream businesses beyond the farm gate. To extend the definition goes beyond the government's commitments made in the context of agriculture.

### Options Paper question 8 - If it is decided that the ANZSIC codes be used, which divisions (or sub-divisions, groups) of the ANZSIC codes should be included in the definition for 'agribusiness'?

For the purposes of the policy commitments on FIRB review, 'agribusiness' should be identified as those businesses meeting Division A of the ANZSIC code.

### Options Paper question 9 - Is there an alternative approach that should be considered to define agribusiness?

Alternative approaches which define agribusiness effectively without capturing all food processing and manufacturing have not been identified. A number of approaches suggested publicly go beyond the scope of the Government's commitment, would capture broad sections of the economy and create a significant disincentive to investment. No public policy case has been made to justify such an action.

# GLOBAL AGRI-FOOD MARKETS

The global food price crises in 2007-2008 and 2011 highlighted the global nature of agri-food markets and the important role of international trade in agri-food in national, regional and global stability. The causes of the global food price crises were wide and varied including the interaction of exchange rate movements, the impact of climate variability on production and low levels of stocks in agricultural commodities globally.

The global food price crises and the focus on rising demand in Asia have led to greater focus on securing geographically diverse sources of supply and hence a focus on global agri-food supply chains. Much of this investment and business development has been led by global agri-food companies.

Multinational companies have operated in the global food manufacturing sector for many years, often with a presence in Australia, including Coca Cola, Kellogg, Associated British Foods, McCain, Heinz and Unilever. Multinational agri-food processing companies have also become more prominent as they expand operations around the world, including Cargill, Glencore, Bunge, Wilmar and JBS. Most recently, investment in agricultural land and production by multinationals has brought a new wave of investment into Australian agriculture, including Hassad Australia, Olam, and Ferrero.

These trends and developments are global and not unique to Australia. Countries such as India, Malaysia, Brazil and China are all positioning to become global agri-food powerhouses with increases in agricultural production, food processing and manufacturing. As a key player in the global agri-food sector, Australia has a stark choice: actively engage with and embrace global trends, or reject the opportunity and suffer the consequences.

Australia's exports of processed food products have recorded more than 17 per cent growth by value from 2012-13 to 2013-14[2], the second highest growth area after the minerals sector (21.6 per cent). The Australian agri-food sector is at a turning point with the opportunity to meet a share of the growing food demand in Asia. In the same way that the mining investment boom is supporting the current increase in mineral and energy production, the agri-food sector needs a substantial increase in investment to meet growing food demand across Asia.

Additional constraints on foreign investment in the agri-food sector would hamper the ability of the entire agri-food sector to increase production, exports, jobs, profits and revenue. Foreign investment in agribusiness does not crowd out domestic investment. While Australia's pool of funds under management is the third largest in the world, Australian fund managers are generally not attracted to the long term returns but short term volatility of the agri-food sector. Foreign investors in the Australian agri-food sector are typically focussed on business expansion and long term returns.

[2] Austrade 2015

# FOREIGN INVESTMENT IN AGRI-FOOD

The AFGC supports foreign investment in Australia's agri-food sector. Australia has benefited, and will continue to benefit, greatly from foreign investment in this and many other sectors of the Australian economy.

Given the lack of Australian investors in agri-food, foreign investment will continue to be an important source of funds for Australian agri-food companies, enabling them to invest in research, skills, technologies and equipment that are vital to improving the productivity and competitiveness of Australian agri-food.

In addition to being a relatively stable source of finance, direct foreign investment can provide Australia with access to research, skills, technologies, and equipment that are vital to achieving innovation within the agri-food sector. As a high cost economy, Australia must compete internationally on the basis of innovation, quality and access to international markets. Innovation and the resulting productivity improvements in these sectors will help increase the international competitiveness of Australia's food supply industry.

Without the productivity improvements and relationships with export markets that are stimulated by foreign investment, it will be difficult for Australia to take advantage of growing food demand opportunities in Asia to 2050.

The AFGC supports government scrutiny of foreign investment to ensure that it is in the national interest and considers that this is currently achieved through the Foreign Investment Review Board's well established and effective regulatory system for assessing the impact of foreign investments. Additional regulation is likely to dampen investor confidence and interest in the Australian agri-food sector.

The United Nations 'World Investment Report 2014' identifies that Australia's global rank as an attractive destination for foreign investment fell from 6th in 2012 to 10th in 2014. Vietnam, the Russian Federation and Indonesia were all ranked as more attractive investment destinations than Australia and our agri-food competitors Brazil and the United States ranked at 5th and 2nd respectively.

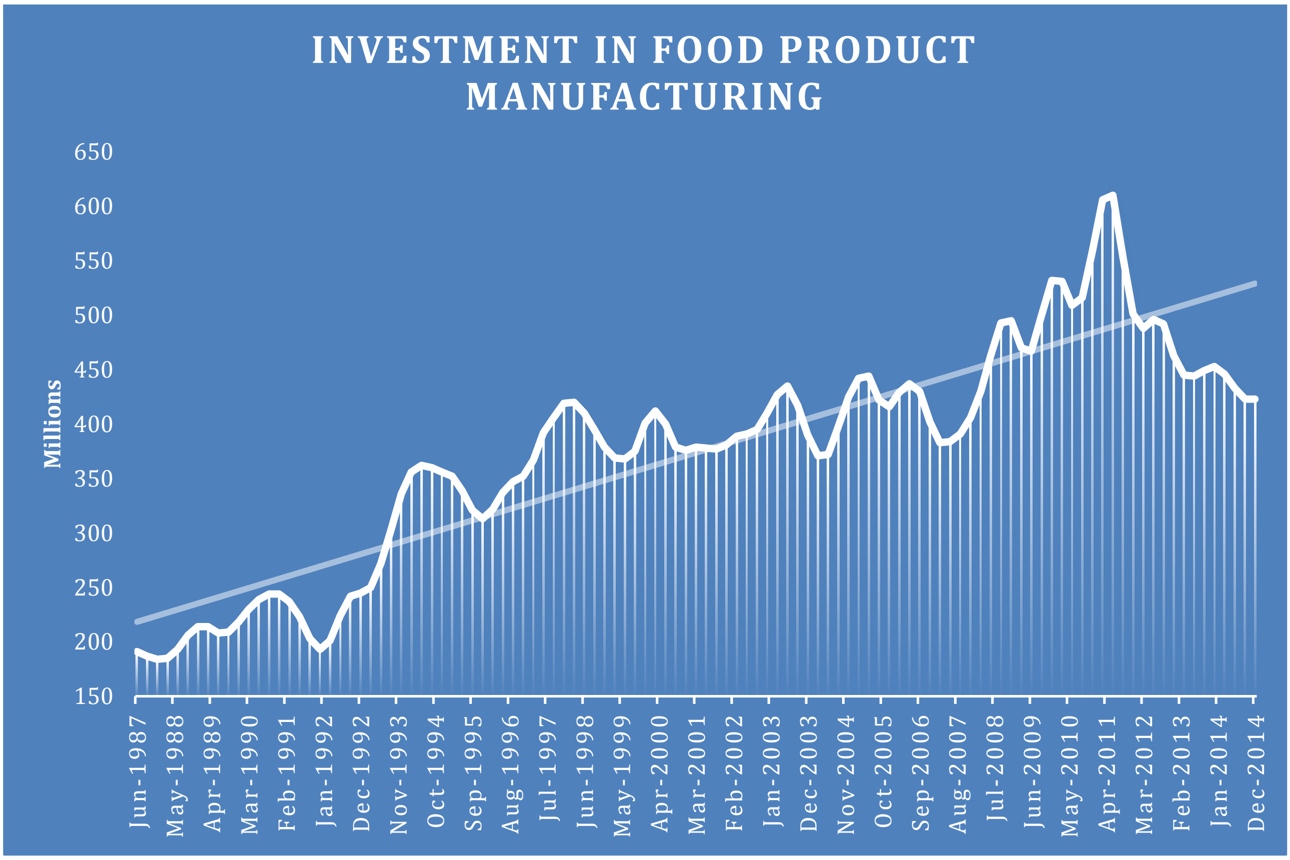
The United Nations estimates that between 2008-2012 Australia lost $89 billion in foreign investment (through failed mergers and acquisition) due to regulatory concerns or political opposition – the greatest loss of foreign investment in the world by value.

Despite high profile mergers and acquisitions in the Australian agri-food sector, investment in agri-food does not show a strong positive trend for the last four years. Gross fixed capital formation in food product manufacturing has stagnated in the last financial year according to the Australian

Bureau of Statistics (ABS). More telling is the measure of investment and, therefore confidence, surveyed by the ABS[3].

Chart 1 shows a peak of investment in 2011 during the 'global food price crisis' when agricultural commodity prices were so high as to provoke social unrest in developing countries but created a boom for the agri-food sector. Since that time, investment has fallen through the level established by the long term trend to a level only just above the global financial crisis in 2007-08. It is vital that government and industry do not underestimate the challenges faced by the Australian agri-food sector and the potential impact of additional regulations on investment.

**Chart 1.**




Source: ABS 5625.0 - Private New Capital Expenditure and Expected Expenditure, Australia, Dec 2014

[3] ABS 5625.0 - Private New Capital Expenditure and Expected Expenditure, Australia, Dec 2014

# DEFINITION OF 'AGRIBUSINESS'

The agri-food sector interacts with almost all the broader economy through production, technology, transport, marketing and consumption. However the Government's commitments were clearly related to agriculture, reflected in the title of Chapter 7 of the Options Paper "Implementation of Agriculture Commitments". Community concern about foreign ownership of agricultural land and agricultural production may be the drivers for these policy commitments. It follows that 'agricultural businesses' or primary production would be consistent with the policy commitments, and are covered appropriately within Division A of the ANZSIC Code.

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For the purposes of the FIRB review the definition of agribusiness should capture all primary production businesses. The definition of agribusiness should not capture first stage downstream businesses beyond the farm gate. To extend the definition goes beyond the government's commitments made in the context of agriculture.

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# INVESTMENT ANALYSIS: SUGAR, BEEF AND GRAINS

The AFGC has conducted an analysis of foreign investment in first stage processing in recent years. The following trends are evident across a wide range of the agri-food sector:

- *historic underinvestment*
  - Australia's sugar milling suffered under a lack of investment for many years and this was evidenced by increasing mill breakdowns and 100 year old technology,
  - some of Australia's key meat processing capacity suffered under a lack of investment and a lack of willing domestic investors,
  - foreign investors with global access to markets and capital invested in the sugar and beef industries to expand production and take advantage of global demand,
- *lack of domestic investors*
  - when sugar milling and beef processing assets were known to be available to investors there were not Australian investors outbidding other interest,
  - Australian processing has not been an attractive investment for Australian investors and processing companies have historically, and continue to, rely on foreign investors to provide capital,
- *competition*
  - across the industry sectors in the Australian economy there are a range of large companies with significant market share who interact with large numbers of smaller customers and suppliers,
  - some of the clearest examples of dominant market positions are by Australian owned companies,
    - for example, Coles and Woolworths are widely considered Australian owned companies and together account for approximately 75 per cent of the domestic supermarket retail sector,
- *global supply chains*
  - while manufacturing broadly has developed global sourcing and supply chains (including car and airplane manufacture), the agri-food sector has more recently experienced a surge in the development of global supply chains,
  - foreign investors in the sugar, beef and grains sectors have integrated their Australian operations into global supply chains,
- *geographical diversity of supply*
  - part of the development of global supply chains has been a drive to manage the risks from droughts, floods and other natural disasters in particular agricultural production and manufacturing locations by establishing geographically dispersed sources of supply,
- *global businesses*
  - the investment in Australian agri-food has often been from global companies looking to diversify supply and provide another supply chain to meet demand in Asia,
    - technology and knowledge transfer is a benefit of integration with global businesses.