Submission in response to the ‘Strengthening Australia’s Foreign Investment Framework’ Modernisation Options Paper

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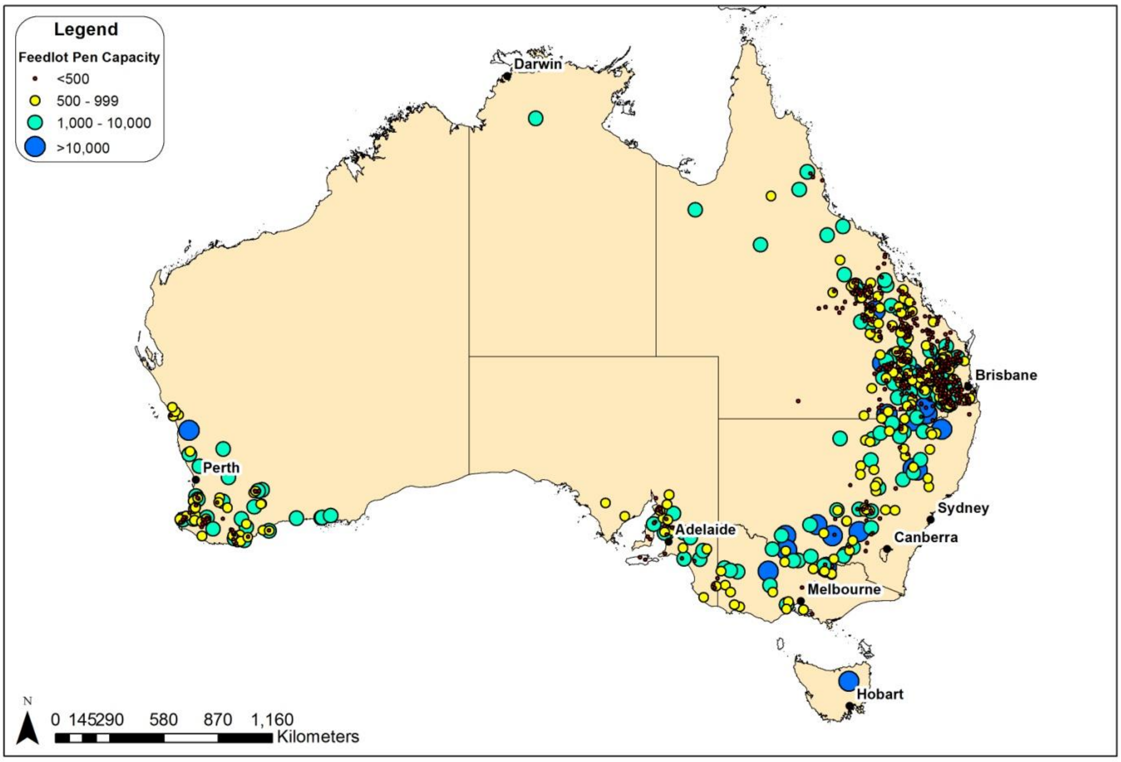
Background

The Australian Lot Feeders' Association (ALFA), the peak representative body for the cattle feedlot industry, appreciates the opportunity to respond to the Federal Government's Strengthening Australia's Foreign Investment Framework Modernisation Options Paper.

The grain fed cattle industry has a value of production of approximately $2.6 billion and employs some 28,600 people directly and indirectly. Approximately 40% of Australia's total beef supply, 80% of beef sold in domestic supermarkets and the majority of beef industry growth over the last 15 years has been due to the expanding feedlot sector.

There are approximately 400 accredited feedlots in Australia located in areas that are in close proximity to cattle, grain, water and beef processing facilities. The majority of feedlots are located in Queensland followed by NSW, WA and then Victoria and South Australia.

Graph 1. The location, number and size of feedlots throughout Australia



The Australian cattle feedlot sector exports around 66% of its production to over 100 countries around the world. Accordingly, the need to be internationally competitive is imperative, particularly in less developed countries where price is the main driver of demand. In other markets, Australia has relied extensively on its systems and programs that enable it maintain a reputation as a supplier of 'clean, green, disease free' beef.

Around 98% of feedlots in Australia are owned by farming families with the remaining 2% owned by vertically integrated processors. Whilst these processor owned feedlots are among the largest in Australia, they nevertheless represent only 22% of overall industry capacity, thereby demonstrating the contribution to capacity by the more numerous but smaller feedlot operators.

There are only 4% of feedlots in the country that are owned by foreign companies. However, they have a long history of such ownership (despite many changing hands since their initial development), and are often vertically integrated with foreign owned processors. Why the bigger feedlots in the sector are often foreign owned, is largely because feedlots are expensive to build, operate, purchase and upgrade with Australian investors often failing to have the sufficient capital required. Notably, domestic banks have a conservative approach to lending (particularly in relation to agricultural investments) and accordingly, Australian businesses are often unable to access the capital necessary to acquire feedlot assets.

Feedlots are captured under both the agricultural land and agribusiness definitions in the proposed foreign investment framework. Accordingly, it is understood that the lower $15 million threshold for foreign investment review board consideration applies for such acquisitions of feedlot businesses. It is not expected that foreign companies would purchase equity in a feedlot business without also purchasing the feedlot assets. Whilst such acquisitions have to date been uncommon in the sector, it is expected that this may change given the increasing demand for beef internationally over the next few decades. Specifically it is understood that the worldwide demand for beef will double between now and 2050.

ALFA is not supportive of the $15m threshold as we believe that the increased application review time (in concert with the proposed introduction of application costs) may potentially act as a deterrent for foreign investment into the cattle feedlot sector.

As explained previously, feedlots (particularly large ones) are high value investments with foreign companies often the only potential purchasers who have the necessary funding capacity to acquire such businesses. By decreasing the threshold to $15 million would therefore potentially deter a significant proportion of buyers for such assets. This is not in the interest of the sector, not the many others that rely on the sector for employment and a market for their products. This is particularly relevant for the grass fed cattle sector and the grain industry, with feedlots providing a vital market for both.

Importantly, a large proportion of feedlots in Australia would be valued above $15 million. This is not only because of the high cost of feedlot infrastructure assets, but also because the purchase is almost always attached to the sale of the land on the property as a whole. This is because the surrounding land on the property provides the opportunity to supply the feedlot with inputs such as cattle, grain, silage and other infrastructure as well as a buffer distance to neighbours to mitigate any potential amenity issues. Therefore, the feedlot assets are inextricably linked to the land.

ALFA has reviewed the options paper and unfortunately there are no obvious options to prevent or mitigate the impacts to the sector from the proposed changes in the foreign investment framework.

We accordingly believe that capital intensive operations such as feedlots should be exempted from agricultural land threshold so that the $55 million agribusiness threshold applies. This threshold would enable Government to ensure foreign acquisitions are still appropriately monitored without deleteriously impacting upon the feedlot sector.