CONTEMPORARY ISSUES IN RURAL AUSTRALIA

THE CENTRE FOR THE STUDY OF AGRIBUSINESS
OCCASIONAL PAPER SERIES

Corporatisation and Foreign Ownership of Australian Agriculture-Should We be Worried?

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Introduction

The growing global population and its demand for food has highlighted the potential of investments in agriculture and food production. Consequently, Australia has seen an increasing number of corporate and foreign acquisitions of farms, farmland and other agribusinesses. This structural shift from Australian family farming to corporate or foreign ownership is an emotive issue, receiving much media attention.

Corporatisation Ownership of Farms and Agribusinesses

The Closer and Soldier Settlement Schemes of the early twentieth century, created many small-scale farms which were not necessarily economically viable and required government funded financial support. (Botterill, 2003).

By the 1970's government focus shifted from protecting underperforming farmers to supporting those with long term prospects. The *Rural Reconstruction Scheme 1971*, and its successors, offered incentives and support to move uneconomically viable farmers out of the industry (Botterill 2003), allowing successful farms to increase in size and remain viable.

However, corporate investment has also played a role in the development of Australia's agricultural industry; from The Australian Agricultural Company in 1824 to the present day. As the 21st century progresses, there has been increased concern around the corporatisation of Australian farms.

As at 2010/11, the Treasury (cited in Parliament of Australia 2014) indicates that of over 16,000 corporate bodies within the agricultural sector, most are private limited companies, and at 2012, 95% of farms continue to be owned by Australian families (Parliament of Australia 2014). Furthermore, the Australian Bureau of Statistics [ABS] (2012) note that the Australian farming sector continues to be dominated by small farms, (72% cover <500ha), with over 50% showing an estimated value of agricultural operations of less than $100,000, as detailed in figure 1.

There are, however, a small number (6%) of very large farms, showing estimated value of agricultural operations in excess of $1 million; and 100 farms covering more than 500,000 hectares (ABS 2012).

Figure 1 Size of Australian Farm Businesses* – 2011 (ABS 2012) *Based on estimated value of agricultural operations

Foreign Ownership of Farms and Agribusinesses

Despite recent media reports of increasing foreign ownership, the reality is that 99% of farm businesses and 90% of farm land are wholly Australian owned (ABS 2012).

Foreign investment in agricultural assets in 2011/12 was $3.6 billion, representing just 2.1% of foreign direct investment (Parliament of Australia 2012). In fact, agribusinesses recording some level of foreign ownership, has decreased from 1,300 in December 2010 to 806 in June 2013 (ABS 2013), with 63% under foreign control in 2010, compared to <50% in June 2013. However, foreign ownership increases along the agribusiness value chain. Table 1 details Keogh's findings of foreign ownership by sector (cited in Parliament of Australia, 2014).

Table 1 Percentage of foreign owned Australian agribusinesses by sector (Keogh, cited in Parliament of Australia 2014)

Milk processing	>50%
Sugar production	50%
Red meat production	>40%
Cotton production	>50%

Advantages of the Trend toward Corporatisation and Foreign ownership

Government measures to increase farm size was driven by an increased focus on economic success. Farms with the lowest average fixed cost per unit of production are the most competitive and better positioned to be profitable. This has been a major economic force for stimulating growth in the size of farm businesses, to exploit opportunities arising from economies of scale.

Furthermore, large agribusinesses and foreign owners (particularly Sovereign Wealth Funds [SWF]) may have easier access to capital (often more cheaply), so can afford greater investment in management, training and technologies to further improve efficiencies. These benefits of lower costs of production may also provide employees with greater job security and consumers with cheaper produce.

As seen in figure 2, Australia's farmers are older than the general working population, with a median age of 53 years (compared to 40 years for other occupations), and 23% aged over 65 years (compared to 3% of the general working population) ABS (2012).

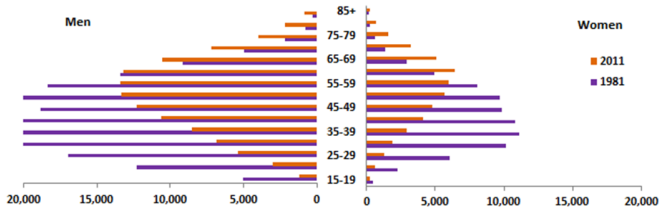

Figure 2 Age profile of farmers 1981 – 2011 (ABS 2012)

This trend may be explained by younger generations choosing not to return to the family farm. Increased corporatisation of the sector, with easier access to capital, may benefit these aging farmers by providing alternate buyers for their farms.

Corporations and their directors are subject to corporate governance regulations issued by the Australian Securities and Investments Commissions [ASIC]. Corporate governance covers many aspects of a company's practices and processes to ensure that the interests of all stakeholders are considered. This increased scrutiny may lead to improved stewardship of natural resources, animal welfare and public relations.

Employees may also benefit if pay and conditions are more actively monitored. Corporate employers may offer structured training and career progression, as well as providing opportunities for a diverse range of people to enter the sector. Careers in agriculture are no longer limited to those from farming families.

Foreign investment often benefits the wider community in this way, creating jobs for Australians within the sector. For example, Brazilian meat processor JBS employs approximately 8,500 in Australia (JBS 2016). It should also be noted that most of Australia's foreign investors are from countries with mature agricultural sectors (Parliament of Australia, 2014) with access to advanced technologies, production and management skills and global supply chains which benefit the sector.

Foreign investment in public research and development has also improved productivity growth in Australian broad acre farming. Sheng et al. (2011 p1) found that foreign public research and development accounted for 0.63% a year of the average 1.96% average annual total factor productivity. Domestic public research and development accounted for 0.6%.

Disadvantages of the Trend toward Corporatisation and Foreign ownership

Many of the factors identified above as benefiting the sector may also disadvantage the small producer. For instance, ease of access to capital allows corporate agribusinesses to outbid local farmers in land and farm sales, increasing prices and creating barriers to entry.
The advantages of economies of scale, improved access to technologies, skilled management and production efficiencies give big businesses a competitive advantage over smaller producers. Small producers may be forced from the sector if they cannot produce profitably.

An increasing global population, and demand for food, raises concern around Australia's food security when food production is controlled by foreign entities and SWFs. The Sunday Times (cited Parliament of Australia, 2014) claim that in 2012 70% of SWF foreign direct investment was to developed economies, providing them with access to advanced technologies and natural resources. This, then, can mitigate the risks of their nation's food insecurity. Felton-Taylor (2016) notes a crisis in China's food market is driving increased interest in Australian agriculture among Chinese investors.

However, Watson (2012), notes that Australia is self-sufficient and a significant exporter of many staple foods, so foreign ownership offers little threat to Australia's food security.

SWF's may be incentivised to produce cheaply for their own population, resulting in non-commercial practices, such as importing cheap labour to Australia. This practice not only threatens Australian jobs, but creates a climate for low wages, disadvantaging local workers. Foreign workers may also send their earnings overseas, removing value created in Australia from the economy. Australian agribusinesses cannot compete with the non-commercial production whilst also losing export opportunities.

Tax avoidance by foreign owned enterprises is a real concern. Businesses that are considered non-resident by Australian tax laws may avoid paying tax on profits. The issue of 'residence' for tax purposes may be confused by the use of trusts, shelf companies and other complicated business structures to avoid Australian taxes.

Even when residency is established, foreign owned companies may not pay their 'fair share'. The common practice of 'transfer pricing' shifts profits around the global company so that profits are taxed in the countries with the lowest marginal tax rate. This is a challenge for tax authorities around the developed world, and increases as corporations in all sectors become more globalised.

Ensuring Benefits to Australian Business Owners and Consumers

There are a number of regulations and legislation in place to ensure that Australian citizens and businesses are not disadvantaged by the increased corporatisation or foreign ownership of Australian agribusinesses.

The Competition and Consumer Act 2010 aims to restrict uncompetitive practices, cartels and monopolies, preventing any large corporation dominating the sector. Foreign ownership is regulated by the Foreign Investment Review Board [FIRB] who advise the Treasury. The Treasury considers whether the proposal is in the 'national interest'. Over 99% of referrals are approved each year (Parliament of Australia 2014).

All interests in agricultural land by foreigners must be notified to the Australian Tax Office.
Despite calls for increased regulation, Australian agribusinesses may not benefit from too many restrictions on who can buy Australian land or businesses, as this can reduce opportunities for sale.

Issues around tax avoidance must be addressed. There is a need for improved anti-avoidance legislation, particularly regarding transfer pricing arrangements and the definition of 'residency' for tax purposes to ensure that value created in Australia benefits Australians and is not driven off-shore.

Threats to Australian jobs should be addressed. Currently immigration law allows young (<30 years) workers from certain countries to work for one year, and a second year provided they undertake 3 months of agricultural work. This might suggest a shortage of agricultural labour. In April 2017 PM Malcom Turnbull announced the abolition of Temporary Work (Skilled) 457 visas, to be replaced with the Temporary Skill Shortage visa [TSS]. Reforms included in the TSS include provisions that employees must be paid at Australian market rates, as well as a more targeted skills needed list (Dept of Immigration & Border Protection 2017). This could be further supported by imposing quotas for creating Australian jobs on foreign owners to further avoid the use of cheap imported labour. This may, however, make Australia a less attractive place for investment.

Small farmers would also benefit from easier access to cheap finance to be able to compete with their bigger competitors. Government backed loan schemes or discounted rates would be beneficial.

Conclusion

Whilst the majority of Australian farms continue to be owned by farming families, it is likely that we will continue to see increases in corporate and foreign investment. The change in business model can have many benefits to the Australian economy and farmers, as long as the changes are in the national interest. In practice this will mean ensuring equity in tax treatments, creation of jobs and incomes for Australians and sharing of access to technologies and production techniques.

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ISSN 2202-042X (Print) ISSN 2202-0438(Online)

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