Reap what you Sow: Planting Time for Australian Agriculture

Australia sparked controversy by opening its mines to foreign interests and some in the country would have the government build high walls around its pantry.

In the past few months Australia has further solidified ties with China through a free-trade deal and by signing up to the Asia Infrastructure Investment Bank, controlled by China.

This has inevitably made some people nervous but these are exciting times and Australia is attempting something of a reinvention of its economy now the mining boom is not booming.

Australia's reliance on mining exports has long been a worry, with former government adviser Andrew Charlton this month claiming in a research report for AlphaBeta that even low-income countries such as Nepal, Kenya and Tanzania have greater export diversity.

The task is not easy but the agriculture sector — one of PM Tony Abbott's "Five Pillars" — should be giving politicians food for thought.

With the industry contributing just 14% of total exports and 2.3% of GDP — compared to about 50% and 8% for mining — it might appear some way off being a revenue replacement.

But with food supply a growing issue amid rising populations and dwindling resources, Australia has an opportunity to build upon its reputation as a reliable, quality producer of agricultural commodities and massively lift its agricultural production in the knowledge that whatever it produces will have a ready local market in the Asian region.

That said, the agriculture industry needs help.

Although Australia's agricultural exports are at all-time highs, countries such as Indonesia, China, Thailand and Brazil have been taking market share of an increased demand for farm products.

For example, according to the Australian Farm Institute, the market share of Australian agriculture imports into the key ASEAN bloc has halved over the past 20 years despite the value of those exports surging.

New Zealand, meanwhile, has become a large exporter of dairy products to China.

Government investment is patchy at best. Farmers complain about red tape, at home and abroad, with government not providing subsidies unlike competitor countries. Australia doesn't have a subsidy program.

Furthermore with the advent of new technologies and improved farming practices, Australia's agricultural workforce has been shrinking over the past 15 years, from about 415,000 in 2000 to about 322,000 in 2014. It also has the oldest median age of all Australian industries, at 48.

This is unfortunate because, for the Chinese and other foreign investors that could help Australia improve, the government appears to be sending confusing signals. I think one of the interesting insights here is in Australia we forget that other countries, particularly those seeking to invest, actually listen to their Government and what the Government says goes. Here Government noise is often background to everyday business life.

New foreign investment rules, which came into effect on 1 March 2015, require that agricultural land purchases of AU$15 million or more be subject to Foreign Investment Review Board scrutiny, down from AU$252 million.

Furthermore, it appears agribusiness investments by foreign entities of AU$55 million of more will soon require FIRB approval — meaning foreign equity used in upgrades or expansion might require additional process steps.

Whilst these developments can be viewed as a "negative" by some, a number of foreign investors appreciate that Australia with its well-developed infrastructure, strong legal structure and skilled work force is still one of the more attractive agricultural investment destinations in the world.

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Asian Opportunities

How open Australia leaves the pantry door is important when you consider how much potential the industry has and how much it depends on exports.

The country produces a wide and sought after range of agricultural products including wheat, beef, cotton, sugar and wool, according to the Department of Foreign Trade and Affairs.

About two-thirds of this is exported, with the three biggest markets for Australia's agricultural products being China, Japan and Indonesia. The European Union as a whole would come third if taken as a single block.

According to research consultancy World's Richest Countries, Australia exported about $1.1 billion of meat to China in 2014, along with $1.5 billion of wool, $1 billion of cotton and $467 million of cereals.

Cereals alone were China's second fastest growing import last year, with dairy, eggs and honey fifth and meat nineth. In short, this huge market is growing as its middle class expands and the recent free-trade deal should eventually remove a lot of the tariffs on Australia's agricultural exports to the country.

Indonesia's fastest growing import for 2014 was meat and seafood, with cereals also in the top 10 — all of which Australia supplies its nearest export market.

Food Shortages

The opportunities are even more enticing considering the current generation's unprecedented need for food.

The United Nations Food and Agriculture Organization (FAO) estimated that, by 2050, food production worldwide will need to increase by 70% to meet demand.

Furthermore, annual cereal production will need to rise to about 3 billion tonnes from 2.1 billion today and annual meat production will need to rise by more than 200 million tonnes to 470 million tonnes.

Australia's own National Food Plan, unveiled in 2013, states that demand for food in Asia will likely double between 2007 and 2050, with China accounting for almost half of the increased demand.

Countries are acting accordingly, with governments and companies buying up and then further investing in land (and other companies) globally to ensure their future food needs are met.

Positive Steps

It is key then that Australia, which has a decent track record in terms of allowing incoming foreign investment, greases the wheels further rather than clog up the spokes.

The good news is that the government has now signed free-trade agreements with its three largest trading partners — China, Japan and South Korea.

Meanwhile, the National Food Plan aims — among other things — to increase the country's food-related and agriculture exports by 45% by 2025.

With 10 years to go it is therefore heartening that there is a push by industry groups to introduce a unified brand for such exports. There have also been moves to open up more land for agricultural investment and development of more intensive cultivation practices, including vast tracks of Northern Australia.

Moreover, the government is spending millions of dollars on training and education schemes to create the next generation of farmers and technical experts. With the growth of agricultural investment, the opportunities for the next generation to craft rewarding careers as professionals in agriculture become more pronounced and hence increases the attractiveness of the sector away from the traditional owner/operator model.

As always, perception is key to investing and Australia has to be careful it doesn't give in to protectionist hunger pains and miss the chance to take full advantage of its agricultural opportunities.

Whilst Archer Daniel Midland's (ADM) multi-billion dollar bid for GrainCorp was rejected by the government on national interest grounds, this was an isolated situation in a market dynamic that has historically welcomed foreign investment into agriculture and continues to do so.

The general acceptance of the continued need for foreign capital into agriculture should see a similar outcome going forward.

Of course, if a deal is deemed poor business it is quite right that the regulator steps in to protect Australian interests, and the number of applications rejected on the country's foreign investment rules remains small.

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