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Inquiry into Foreign Investment Proposals

Senate Economic References Committee

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Introduction

For more than a century, The University of Queensland (UQ) has maintained a global reputation for delivering knowledge leadership for a better world.

The most prestigious and widely recognised rankings of world universities consistently place UQ among the world's top universities.

UQ has won more national teaching awards than any other Australian university. This commitment to quality teaching empowers our 52,000 current students, who study across UQ's three campuses, to create positive change for society.

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Summary and recommendations

This submission addresses the impact of proposed foreign investment on market concentration and competition (TOR-B); the role of the Foreign Investment Review Board (TOR-C); and other matters related to foreign ownership and control of Australia's agri-food resources (TOR-G). In particular, we draw attention to the important role of institutional investors, such as pension funds and 'funds-of-funds', in shaping land ownership. We also argue that information presented in the Australian Government's *Register of Foreign Ownership of Agricultural Land*[i] – which only provides summary data on land size, land use, and country of ownership for foreign owned land in each State and Territory – does not provide the information we need to better understand the full depth of issues surrounding foreign investment in Australia's farmland.

We draw here on our combined research into foreign investment in agricultural land and supply chains in Australia undertaken as part of an Australian Research Council Discovery Project 2016-2019, 'Food, Farming and Financialisation: Agri-food Transformations in Australia'. This study examined the ways financialisation – the growing presence of financial firms in contemporary economic relations – is transforming agri-food industries in Australia[ii]. The study has enabled the first comprehensive mapping of farmland purchases made between 2008 and 2020 with criteria going beyond country of finance origin and hectares of land[iii],enabling for the first time a much more complete, and complex, picture of foreign farmland ownership to emerge.

Our study has documented foreign purchases of Australian farmland, agribusiness and other agricultural assets with details on locations, sectors, financing country, investment amounts and type of finance entity. Our database lists 101 companies, 23 countries, 752 properties/land parcels, amounting to AUD$124,323.3 million of investments between 2008 and 2020. These findings compare favourably to the 2018 Land Register, indicating a high degree of reliability. We have mapped 50.6 million ha farmland (compared to 52.6m ha in the Land Register). This includes 17.23 million ha farmland that has been purchased by China during this time, compared to the 9.17million ha in the Land Register. The difference in findings across the two datasets reflect the challenges associated with measuring farmland investment as it changes over time, and shines numerical light on what is missing from the Australian government land register data.

Despite some limitations, the database represents the most thorough and up-to-date account of *who* is investing in *what* agricultural assets *where, when* and *how* in Australia. This helps to clarify issues of ownership and control of Australia's agri-food resources, and provides detailed information with which to assess whether agri-food investments strengthen national food security, provide benefits to communities, and comply with national investment guidelines. Our submission also draws on a research paper co-authored by the authors, currently in preparation for the *Journal of Agrarian Change.* We thank the Committee for holding the inquiry and accepting our submission.

Recommendations outlined in this document are:

1. Given the vastly different types of, and relationships between, finance entities buying agricultural land in Australia, it is important to examine the diversity of financial actors and their motivations for investing. This is more informative about competition and concentration than the country of origin of finance per se.

2. Granting public access to a fuller range of data held by the FIRB Land Register would enable improved analyses of foreign investment *and divestment* drivers and trends, and better meet public expectations for accountability and transparency.

3. In Australia, farmland ownership is increasingly shaped by institutional finance's capacity to invest and divest in partnership with other types of finance entities (private and public companies, government enterprises and family funds), resulting in the deepening entrenchment of institutional ownership in the majority of foreign-owned agricultural assets in Australia. FIRB data should seek to capture type of finance entity in its annual reporting of the Australian Land Register.

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Terms of reference

i. B - Assessment of the impact of foreign investment on market concentration and competition

While the UK and China have purchased the most farmland hectares since 2008 (in line with government findings), it is actually China, Canada and the US which have purchased the most agricultural properties or agribusinesses (number of land parcels), and China and Canada which have invested the most in terms of financial value. The concentration of land ownership is greater for the US (average of 14.3 properties per company) and UK (14.2) land owners than it is for China (3.5). Joint ventures (JVs) between foreign and Australian investors are also growing in strategic importance, owning the third highest area of land after China and the UK.

Table 1: Foreign investment in agricultural land in Australia

Country of investment	No. companies	No. properties	Concentration (average no. properties per company)	Estimated Ha	Estimated purchase price AUD million
JVs - AU + other countries	9	103	11.4	8,732,430	563.25
Canada	12	145	12	5,859,168	2,200.5
China	35	123	3.5	17,227,047	118,199.8
Europe*	10	75	7.5	403,208	735.3
Asia and Pacific**	18	86	4.7	5,865,505	762.9
Middle East***	2	17	8.5	509,949	769.7
South America****	1	4	4	50,000	4
UK	6	85	14.2	11,562,557	623.2
US	8	114	14.3	394,662	463.6
TOTAL	***101***	***752***	***na***	***50,604,526***	***124,323***

* Denmark, Germany, Greece, Italy, Netherlands, Sweden, Switzerland
** Hong Kong, Indonesia, Malaysia, New Zealand, Philippines, Singapore, South Korea, Thailand and Vietnam
*** Qatar and Saudi Arabia
**** Argentina

Qualitative findings further indicate that the motivations for investment are diverse:

- While the level of foreign investment has remained stable, the past 3 years has seen some major changes in the activities of some key landholders/firms – shifts away from leasehold, more JVs, investing across supply chains to improve financial performance.

- Land investments are increasingly made by financial actors whose purpose is to generate profit for shareholders, rather than in land as a productive asset. It is therefore important to know the ownership of Australia's productive land, accounting for area, rainfall, soil quality and proximity to markets, as these are the factors that influence market competition the most. The productivity of farm enterprises can be undermined if decisions about ownership change and business development are made to take advantage of changing conditions in financial markets, rather than as an investment in the long term viability of the enterprise itself.

- Ownership and control of agrifood chains is as important (if not more important) than land ownership alone. Through owning ports, processing, transport and retailing, foreign firms can affect final prices; something that Australian capital cannot do.

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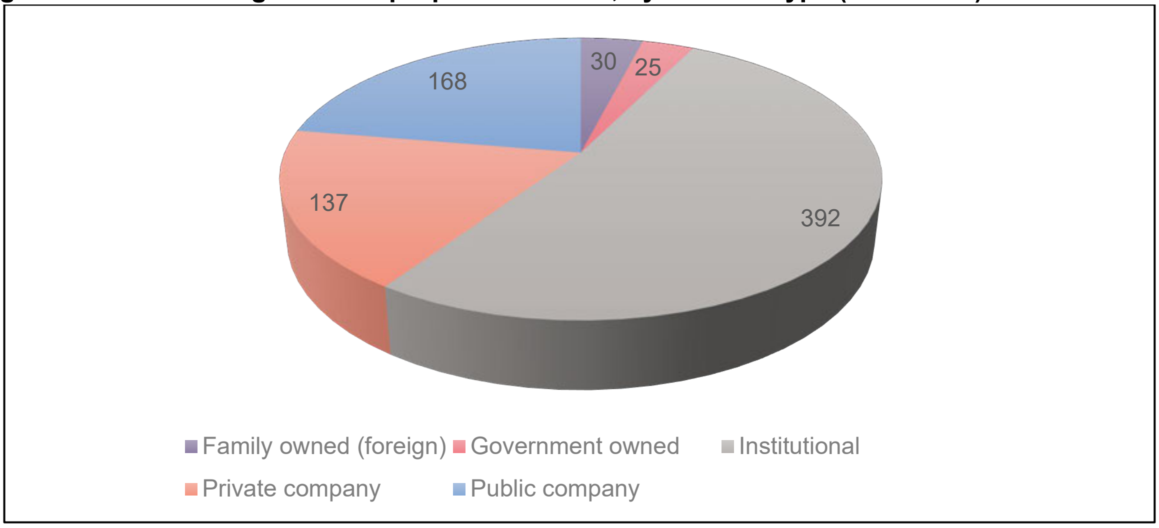
- Concentration of ownership is greatest for institutional capital, indicated by the high number of agricultural properties owned by institutional investors compared to other investor types (Figure 1). Also, we found a growing trend towards investment models (i.e. JVs) that mix funding from institutional investors with other sources of capital (private and public companies, government enterprises and family funds) and importantly, with Australian-owned financiers, further increasing the reach of institutional finance.

Figure 1: Number of agricultural properties owned, by investor type (2008-2020)



- The impact of foreign investment on market concentration and competition varies according to the structure through which the foreign entity invests. For example, our research examined the process through which a foreign pension fund formed a partnership with an Australian family-farm business and subsequently invested substantial funds into Australian pastoralism and the business development of that entity[iv]. This structure appears to have a range of positive benefits relative to other investment strategies since the family farm business retains a high degree of control over business development. Such partnerships are very rare however and many farmers report less positive experiences. These partnerships are difficult and expensive for farmers to negotiate and there is a potential role for government in providing support to farmers seeking to negotiate such partnerships.

- Some foreign investors have little knowledge of Australian agribusiness and rely on intermediaries to provide guidance in choosing where to invest and in developing business development plans, particularly in less developed areas of Northern Australia. In the Northern Territory, the government attempts to provide such support in shaping the location and type of investment[v], although there are also many private-sector actors who do this, some of whom are perceived to have misled investors and in doing so facilitated unsustainable investments. Greater attention to the varying sophistication of foreign financial investors is necessary to understand patterns of investment.

- Foreign investment in pastoral land has driven increased land prices and land price volatility, which can severely affect the ability of local enterprises to compete with large foreign entities[vi].

Recommendation:

Given the vastly different types of, and relationships between, finance entities buying agricultural land in Australia, it is important to examine the diversity of financial actors and their motivations for investing. This is more informative about competition and concentration than the country of origin of finance per se.

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ii. F- The role of the Foreign Investment Review Board

To date, research into agri-food financialisation in Australia has been limited by the lack of non-aggregated land title data that would allow researchers to gain a comprehensive picture of emerging trends. First, government land data are not always available, accessible or consistent. In 2018, the Australian Government's *Register of Foreign Ownership of Agricultural Land* estimated foreign interests in 13.4 per cent of Australia's agricultural land; a figure that has remained relatively stable since its first report in 2016[vii]. This equated to around 52.6 million hectares of agricultural land. But the FIRB data reporting has drawn wide critique for purposefully painting an incomplete picture of foreign investment complexity in Australia[viii], and for changing its reporting methodology year-to-year. Furthermore, land investment data from the *Foreign Investment Review Board* neither includes information on the types of financial entities which own land, nor does it enable analysis of relationships between land values, purchase prices, sectoral trends, parent companies or investment structures. This lack of detail provided publicly tends to emphasise *land area* bought or sold or the *country of origin* of finance (as presented earlier). The first of these cannot inform, on its own, on the quality of that land or its suitedness for productive activities; the latter tells little of the complex institutional relations through which international finance actually flows. Our interviewees were also widely concerned that "*Sometimes it's difficult to understand where the actual capital comes from" (Banker).*

Second, in compiling our database during the five year study period (2016-2020), land parcels have been bought and sold, companies have been created and disbanded, and numerous 'funds of funds' have emerged and dissolved with complex relationships to transnational financiers (such as commodity traders and sovereign wealth funds). Efforts to map macro-level patterns of farmland investments are fraught by the challenge of recording both investments *and* divestments, both of which are crucial considering that land ownership does not remain static for long. Some of these are illustrated below.

Table 2: Selected recent divestment-investments in agricultural land

Prior owners	Description	Country	*New owners*	Country/type	Ha	AUD $m	Year
Mitr Phol/ MSF Sugar	Cane land converted to macadamias	Thailand	*Rural Funds*	*AU/multinational farmland investment trust or REIT.*	5,409	81	2020
Consolidated Pastoral Company	Private equity backed by Terra Firma	UK	*Private and institutional investors*	*Guy Hands (UK) and Sterling Bunting (AU), institutional investor Vietnam*	80,500	150+	2019 2020
Laguna Bay	Banongil cattle station,	Switz, UK and US	*Local consortium*	*JV between AU and foreign investors*	6,880	80	2020
	Adveq Almond portfolio		*Public Sector Investment Board*	*Canadian pension fund*	12,000	350	2019
Shandong Ruyi	Cubbie Station	China	*Macquarie (MIRA)*	*JV with Chinese company*	93,000	na	2019

Third, land value representations are disembedded from local factors such as historical contexts, regulatory or taxation shifts, land rights/legal protections, or production cycles. For example, one motive is to profit from the increasing value of farm products in domestic and global markets, but another is to speculate on land prices. The land register tells us nothing about these different kinds of investments, the supply-chain implications of strategic purchases by foreign companies, food security implications, or how valuable water resources are linked to land purchases; these issues remain invisible.

Recommendation:

Granting public access to a fuller range of data held by the FIRB Land Register would enable improved analyses of foreign investment *and divestment* drivers and trends, and better meet public expectations for accountability and transparency.

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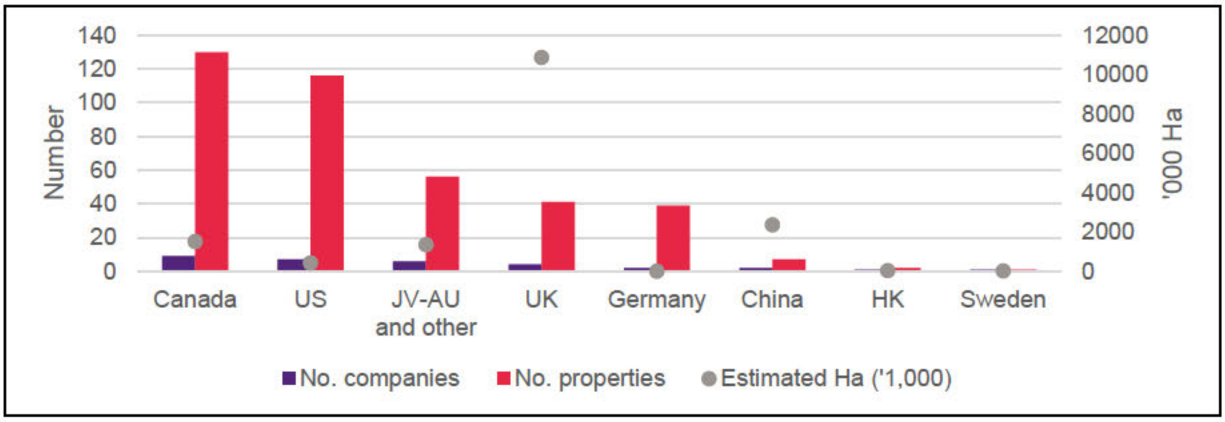
iii. G – Other related matters: Institutional finance

In going beyond a focus on the country of origin of finance, our database also allows us to differentiate investments by financial entity: family-owned company, private company, publicly-listed company, government entity and institutional finance. We found that institutional investment exceeds all other categories of foreign capital investment in Australian farmland. This refers to finance actors that invest large sums of money in securities, real estate, and other assets on behalf of third parties, such as mutual funds, merchant and commercial banks, investment finance houses, superannuation funds, private equity firms, hedge funds, and managed investment schemes/funds[ix]. These institutional finance entities are not only buying farmland, but they are actively and constantly restructuring their economic relations with other financial actors to create new financial models and vehicles through which to invest. The lack of access to, and quality and consistency of, de-aggregated data has meant that financial influence by these institutional investors is often hidden. For example, China has much lower levels of institutional investment in Australian land than does Canada, the UK or the US, but is disproportionately prominent in media debates about foreign ownership.

Figure 2: Institutional investment, by country (2008-2020)



Data organised this way enables important insights into how institutional capital might be driving changes in farmland ownership in Australia:

- Categories are difficult to distinguish, capital flows between types of investment entities are opaque, and finance vehicles overlap.
- Different investor 'types' are often similar in their activities, while differences stem from combinations of sectoral-specific drivers, corporate finance structures, assessment of risk, and the history of the fund/company rather than country of origin of finance per se.
- Institutional capital is driving changes not only in farmland ownership, but also in supply chain consolidation. For example, private equity funds and other companies are also purchasing water rights and entitlements, with the aim of leasing these back to farmers.
- Views on the suitability of institutional investment in agricultural land is mixed. Interviewees said that "*A lot of the [institutional] capital that's floating around is not suitable for agriculture.-*". Others consider that *"for long term success we're better off trying to increase the proportion of institutional capital,"* even though cultivating these relationships can be challenging[x].

Recommendation:

In Australia, farmland ownership is increasingly shaped by institutional finance's capacity to invest and divest in partnership with other types of finance entities (private and public companies, government enterprises and family funds), resulting in the deepening entrenchment of institutional ownership in the majority of foreign-owned agricultural assets in Australia. FIRB data should therefore seek to capture type of finance entity in its annual reporting of the Australian Land Register.

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Endnotes

[i] ATO (2019). *Register of Foreign Ownership of Agricultural Land: Report of registrations as at 30 June 2018*. Canberra: Australian Government Taxation Office.

[ii] Lawrence, G. and Smith, K. (2018). 'The concept of 'financialisation': Criticisms and insights'. In Bjorkhaug, H., Lawrence, G. and Magnan, A. (eds). *Financialisation, food systems and rural transformation*, Routledge, London (pp.23-41).

[iii] Our database was compiled using content analysis of public information obtained from company websites and annual reports, online databases such as *factiva*, government reports, industry databases (such as AgriInvestor and the Land Matrix), and material in the financial press. Data entries have been triangulated across these numerous sources where possible. It maps 752 separate entries of land purchased since 2008; some entries are already 'aggregated' (i.e. numerous properties are combined into one purchase), others are not (i.e. multiple properties are identified individually, even though they were part of a single purchase). Our database records and consolidates *major purchases* during this time period, of which some land parcels have been bought and sold numerous times. This explains why our database records more foreign land ownership than the Australian Land Register, which records *current levels* of foreign ownership only.

[iv] Langford, A. (2019). Capitalising the farm family entrepreneur: Negotiating private equity partnerships in Australia. *Australian Geographer* 50(4): 473-491. doi.org/10.1080/00049182.2019.1682320

[v] Langford, A, Lawrence, G and Smith, K. (2020). Financialising governance? State actor engagement with private finance for rural development in the Northern Territory of Australia. Research in Globalization. https://doi.org/10.1016/j.resglo.2020.100026

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[vii] ATO (2019). *Register of Foreign Ownership of Agricultural Land: Report of registrations as at 30 June 2018*. Canberra: Australian Government Taxation Office.

[viii] See for example, Borras Jr. S.M., Mills, E.N., Philip Seufert, P., Backes, S.,Fyfe, D., Roman Herre, R. & Michéle, L. (2019). Transnational land investment web: land grabs, TNCs and the challenge of global governance. *Globalizations*, DOI: 10.1080/14747731.2019.1669384; Sippel, S.R. and Weldon, T. (2020). Redefining land's investability: towards a neo-nationalization of resources in Australia? *Territory, Politics, Governance*. DOI: 10.1080/21622671.2019.1703797

[ix] McNellis (2009), cited in Daniel, S. (2012) Situating private equity capital in the land grab debate, *The Journal of Peasant Studies* 39:3-4: 703-729 (p. 704). DOI: 10.1080/03066150.2012.674941

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