



20 July 2018

Committee Secretary
Standing Committee on Agriculture and Water Resources
House of Representatives Committees
Via email: agriculture.reps@aph.gov.au

Dear Committee Secretary,

RE: Superannuation Fund Investment in Agriculture

The National Farmers' Federation (NFF) would like to register interest in the Standing Committee on Agriculture and Water Resources inquiry into *Superannuation Fund Investment in Agriculture*.

The NFF is the peak national body representing farmers and, more broadly, agriculture across Australia. Operating under a federated structure, individual farmers join their respective state farm organisation and/or national commodity council. These organisations form the NFF. The NFF is committed to advancing Australian agriculture by developing and advocating for policies that support the profitability and productivity of Australian farmers.

The Australian agricultural sector continues to position itself to meet the global challenge of producing more food and fibre with less agricultural land and fewer farm inputs, such as water and chemicals. Meeting this challenge relies on increased investment in productivity improvements in agriculture. While Australian farmers already export around 67 per cent of what they produce, to grow further, the agricultural sector needs investment that increases efficiency and builds competitiveness. To this end, the sector depends on reliable investment from diverse sources.

The terms of reference for the inquiry ask the Committee to consider whether:

- there are any regulatory requirements imposed on superannuation funds by ASIC, APRA and any other relevant regulators, which are acting as a barrier to superannuation fund investment in Australian agriculture;
- the information required by the superannuation funds in order to invest in Australian agriculture is readily available, and if not, what statistical performance reporting of the agricultural sector is necessary; and
- there are any other practical barriers to superannuation fund investment in Australian agriculture.

The NFF is not aware of any specific regulatory requirements imposed on superannuation funds that would act as barriers to investment in Australian agriculture.

On the question of other practical barriers to investment, the NFF recognises that conditions specific to superannuation funds impact on their investment decisions. These include liquidity requirements¹, generally higher return targets than banks (as alternative sources of capital)², and government oversight and public scrutiny³ that is often absent in the investment considerations of other investors. The practical barriers to superannuation fund investment in agriculture are those that stem from the criteria which guide all superannuation fund investment decisions. These are:

- What are the expected returns from an investment;
- How volatile are those returns;
- What are the risks in not meeting the return expectations;
- How liquid is the investment; and
- Government involvement⁴.

The NFF also recognises that ‘investment in Australian agriculture’ includes, but is not limited to, investment in family and corporate farms, agriculture-related infrastructure, and businesses supplying agricultural services and technology. This submission focuses on superannuation investment into farm businesses. Australian farm businesses differ from other business enterprises in at least two respects. The first is most have cash flow that is aligned to the agricultural production cycle. Second, farm businesses tend to be more exposed to climate variability, international market fluctuations and limited competition in the domestic market for agricultural output. Most Australian farm businesses are family run operations which also has implications for securing investment from superannuation funds.

The volatility often associated with agricultural businesses has been identified as increasing the risk profile of agriculture, a key consideration in superfund investment decisions. As land often constitutes a significant proportion of an investment in a farm business, however, it is arguable that farm businesses are relatively low risk investment options. Small farm enterprises also tend to be seen as less able to capitalise on economies of scale. Asset managers that pool farms help overcome this perceived limitation increasing the appeal of farm businesses as investment opportunities⁵.

¹ For example, superannuation fund liquidity requirements must provide for members that are nearing retirement to withdraw all or part of their superannuation savings, to provide an income stream for members in retirement, to pay benefits to members that transfer to other funds or are in receipt of death or disability payments.

² See, for example, <https://www.canstar.com.au/compare/agribusiness-loans-commercially-secured/?profile=Secured+by+commercial+property+and+farm&amount=250000&state=NSW&Loan+Type%5B%5D=Fixed+Loan+3yr> and Industry Super Australia (2017), *Driving Super Fund Investment in Agriculture*, Canberra.

³ See <https://www.pc.gov.au/inquiries/current/superannuation> for the latest of a long list of government-initiated reviews into superannuation. Media commentary on superannuation investment is similarly extensive

⁴ Prime Super submission to the House Standing Committee on Agriculture and Water Resources inquiry into Superannuation Fund Investment in Agriculture.

⁵ Industry Super Australia (2017), *Driving Super Fund Investment in Agriculture*, Canberra.

NFF considers superannuation fund investment in Australian farm businesses could be increased if risks and likely returns could be more accurately calculated through the provision of better data. This includes more detailed and timely data on the physical (eg. water availability, soils, climate impact) and financial (eg. market fluctuations, demand and supply data) factors impacting farm profitability. Australia has traditionally lacked relevant benchmark indexes which allow for performance to be measured and compared. Improved data enabling comparisons with other investments, such as long-term income and returns data, is also likely to increase superannuation fund consideration of agricultural assets as investment targets.

Initiatives to increase superannuation fund expertise in the agriculture sector, and encourage the growth of investment firms specialising in agricultural investment, is also likely to support increased superfund investment in the agriculture sector in Australia.

Initiatives that increase the overall profitability of agricultural businesses are also likely to increase the agricultural sectors appeal as a target for investment. These include improved infrastructure projects, greater investment in technology, and initiatives that increase domestic and international market access. Superannuation investment in government-backed transport infrastructure projects, for example, can directly improve farm-gate returns by reducing transport costs.

From the perspective of farm businesses, the most productive investment is often that which is patient, aggregates risks and returns over several farm businesses, and involves asset managers that remain engaged over the long-term.

Investment in Australia's agricultural sector is key to its growth and competitiveness. The NFF welcomes government and or private sector initiatives that encourage and enable increased investment from any source, including superannuation funds, able to support long-term growth in the agriculture sector.

For further information on this submission please contact

TONY MAHAR
Chief Executive Officer