
Inquiry into Superannuation Fund Investment in Agriculture

Submission to:
Federal Government
Standing Committee on
Agriculture and
Water Resources

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ABOUT US

Agribusiness Australia is the peak national body for the 'whole of supply' chain agribusiness sector.

Our purpose is to promote an efficient, profitable and dynamic Australian agribusiness industry through influential advocacy, strong and credible leadership, and information sharing and debate.

We represent businesses involved in all stages of farming and agriculture-related commercial activities required to send an agricultural good to market, including research, production, processing, and distribution. Our membership also includes supporting service industries, such as finance and business advisors.

A competitive and productive agribusiness sector will contribute to the security and profitability of Australia's food and fibre supply chain and contribute to wider economic growth. It will also provide ongoing economic opportunities across rural and regional Australia including employment, infrastructure and community wellbeing.

The long-term growth and profitability of Australian agribusiness is linked closely to its status as a globally competitive producer that can develop and retain market positions. A solid domestic economic framework will help the global competitiveness of Australian agriculture for agriculture and participants in the supply chain.

AGRIBUSINESS IN AUSTRALIA

As the cornerstone of Australian industry, agribusiness and food has always been an iconic part of the Australian national identity.

Estimated as a \$256 billion industry, and continuing to grow, it is a key contributor to our country's GDP and Australia's economic prosperity. The sector has a strong track record in attracting international investment throughout the agricultural supply chain.

Australia's diverse climate, rainfall patterns and soil types sustain a wide range of agribusiness enterprises, including: tropical and temperate horticulture; inland and coastal aquaculture; the production of grains, oilseeds and fibres; grazing and feed lotting of livestock; thoroughbred breeding, forestry and the production of timber products.

Australia enjoys several advantages. Our geographic isolation and leading quarantine and monitoring regime help preserve a reputation for high quality production. Proximity to Asian economies, extensive free trade agreements and counter-seasonal production for the northern hemisphere means that trans-national companies sourcing from Australia can deliver produce throughout the year; this assists to drive demand for Australia's products in world markets.

Australian agribusiness has consistently financed and developed science-based farming technologies for the sector. This has maintained an average agricultural productivity gain of two per cent over the past 50 years.

Competitiveness for agribusiness is derived from locally-developed production methods and technologies and international research and development collaborations. Continual innovation in farm machinery, sophisticated plant and animal breeding programs and intelligent transport solutions underpin the ability of Australian agribusinesses to bring world-class commodities to market.



As a major exporter of agricultural produce and services, more than two thirds of agricultural commodities produced on farms are exported each year.

Over the past twenty years, the production and exports of beef, wine and dairy products have increased significantly in response to growing overseas demand for higher value products.

Australia is a logical supply source for agricultural products, food and biofuels. The professional farming community also represents an educated and reliable supply chain partner for international customers. Considering the extensive range of agricultural resources and rural production, there are significant new opportunities in the agribusiness sector within a stable investment and regulatory environment.

INQUIRY TERMS OF REFERENCE

The Terms of Reference for the Inquiry into Superannuation Fund Investment in Agriculture are as follows:

- 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;
- Whether 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
- Whether there are any other practical barriers to superannuation fund investment in Australian agriculture.

OUR RESPONSE

It wasn't that long ago that business commentators considered agribusiness as a sunset industry, and rarely even acknowledged its existence. Yet now all the experts are predicting a very strong future for Australian agribusiness.

A report from business consultants, Deloitte, identified five superannuation-growth industry sectors worth an extra \$250 billion to the national economy over the next 20 years that hold the key to Australia's future prosperity. The report, entitled *'Positioning for Prosperity? Catching the next wave'* focuses on business imperatives for a prosperous Australia.

Their research predicts that the next set of superannuation-growth waves we need to ride are agribusiness, gas, tourism, international education and wealth management.

The report suggests that exceptional growth in these five sectors could add an additional \$25 billion to Australia's GDP over the next 20 years. That is a boost of about 1% to our economy, which is turning over \$2.6 trillion in today's dollars.

Deloitte says that the first place to look for sectoral growth is in markets that can be expected to grow faster than the global economy as a whole. Their analysis shows that we have a 16.2% comparative advantage in agriculture. (The Australian average is 5.2%; and the next nearest sector is mining at 13.3%.)



On this basis, they have identified agriculture as Australia's 'forgotten hero' – the sector which offers the greatest potential for economic growth amongst the five top spots.

A report from the Business Council of Australia (BCA) entitled '*Building Australia's Comparative Advantages – a 21st Century Agrifoods Sector*' comes to a similar conclusion. The report identifies that there is a window of massive opportunity to increase returns to farmers and others in the agribusiness value chain. As well, this could open new markets, broaden the reach of the sector in the Australian economy, and create new jobs.

With that sort of capital in the market, and with the very positive future for the agribusiness sector, it would not be unreasonable to expect that accessing domestic investment for agricultural enterprises. However, that is not the case.

Agribusiness Australia is not aware of any specific regulatory requirements imposed on superannuation funds that would act as barriers to investment in Australian agricultural or agribusiness operations.

To the best of our knowledge, the Australian Prudential Regulatory Authority (APRA) does not impose any specific regulatory requirements on superannuation funds in relation to investment in the sector. The legislative and prudential requirements imposed and managed by APRA apply to all investments and superannuation trustees are responsible for determining the specific details of their investment arrangements, subject to the overall regulatory investment governance framework.

Yet, by and large, Australian superannuation funds have shown they will not step up to the plate to invest in Australian agriculture.

There are many reasons for this reticence.

In the past, local fund managers and other investors have shied away from investing in local agribusiness because they have deemed the sector 'too risky'. They argue that the inherent risks in the sector from weather events and fluctuating exchange rates make it a poor bet for investors.

However, as land often constitutes a significant proportion of an investment in a farm business, it is arguable that this sector actually represents relatively low risk investment options.

It is difficult to reconcile this argument with the continued growth in the value of agricultural production; and the fact that the performance of other sectors of the economy has been inconsistent at best – and downright abysmal in some cases.

As well, many funds are over-weighted in coal and other mining shares; and some have significant capital investments in infrastructure projects in unstable areas of the world. There's no way that anyone could argue these things are anything less than risky.

Decades of stop-start innovation policy have resulted in a poor track record of commercialisation across the board in Australia. This is exacerbated by the fact that Australia has a very poorly developed venture capital sector, and that this focuses on agricultural technology rather than on the business models needed for successful agriculture.

Another key issue is that superannuation funds generally look for equity investments and most farm businesses are too small for superannuation fund equity investments.



Other reasons why the domestic investment pool has been shallow include the fact that we have a limited population and there are few incentives for investment in agriculture.

However, foreign pension funds have been listening to experts predicting an exciting future for agriculture generally, and for Australian agriculture in particular. And, over recent years, they've been spending up big to buy into Australian agribusinesses. That's because they can see the long term value of the industry and are lining up to invest.

However, this value, and the exceptional opportunities arising from it, has not as yet been reflected in the level of local investment by local superannuation funds.

But it may be that things are changing.

One of Australia's top-performing industry superannuation funds is reported to be looking to spearhead moves by the industry fund sector to plough potentially billions of dollars into the agribusiness sector by investing in assets where it could control the supply chain from paddock to plate. The fund has also held preliminary talks with other industry funds about pooling resources to back vertically integrated agriculture projects.

There are some measures that could expedite this change and make investment in agribusinesses more attractive to investors, including superannuation funds.

A research paper prepared by Industry Superannuation Australia that found superannuation funds that had no previous experience with agriculture could build up their understanding of the sector by investing in expert institutional players and/or top tier producers directly.

The report said there were real opportunities for superannuation funds to roll out more obvious equity and debt products targeting successful large to mid-tier operators and up-and-coming rural producers.

Another factor that has been identified as inhibiting investment is the lack of consistent, credible and reliable data and industry benchmark indices. Improved data that enables ready time series assessment and also comparison with other investment forms would be useful in addressing such shortfalls.

Small farm enterprises also tend to be seen as less able to capitalise on economies of scale. Asset managers that pool farms should help overcome this perceived limitation, increasing the appeal of farm businesses as investment opportunities.

The sector would be also be more attractive to investors if it could demonstrate improved profitability.

Large scale investment in key industry infrastructure would result in improved returns at farm gate and for agribusinesses along the value chain. Superannuation funds could play a major role here by investing in major infrastructure projects such as transport and logistics facilities, and road and rail resources.

With interest rates low and the share market relatively flat, Agribusiness Australia believes that superannuation fund managers should be reassessing the opportunities in the agribusiness sector.



CONCLUSION

It is clear that the consequences of restricted access to funds to further develop Australian agribusinesses will be limited development, fewer jobs and an industry going backwards compared to our main competitors. So investing our national superannuation funds in our future economic and social wellbeing makes very good sense on any measure.

There is thus an urgent need for substantial investment to enable the sector to develop capacity and enhance efficiencies. Given the shortfall in willing local investors, it is inevitable that the much-needed injection of funds will need to come from both non-traditional domestic sources and also foreign investors.

Agribusiness Australia encourages regulatory authorities to ensure that Australia presents an environment that removes unnecessary barriers and constraints and encourages investment by all comers.

Should further information be required, contact details are provided on the end page to this submission.

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