

Australian Food and Grocery Council SUBMISSION

JUNE 2013

TO:

SENATE STANDING COMMITTEES ON RURAL AND
REGIONAL AFFAIRS AND TRANSPORT

IN RESPONSE TO:

EXAMINATION OF THE FOREIGN INVESTMENT REVIEW
BOARD NATIONAL INTEREST TEST



1. PREFACE

The Australian Food and Grocery Council (AFGC) is the leading national organisation representing Australia's food, drink and grocery manufacturing industry.

The membership of AFGC comprises more than 150 companies, subsidiaries and associates which constitutes in the order of 80 per cent of the gross dollar value of the processed food, beverage and grocery products sectors.

With an annual turnover of \$110 billion, Australia's food and grocery manufacturing industry makes a substantial contribution to the Australian economy and is vital to the nation's future prosperity. The industry is similar in size to the mining sector.

Manufacturing of food, beverages and groceries in the fast moving consumer goods sector¹ is Australia's largest and most important manufacturing industry. Representing 26 per cent of total manufacturing turnover, the sector is the second largest industry behind the Australian mining sector and accounts for over one quarter of the total manufacturing industry in Australia.

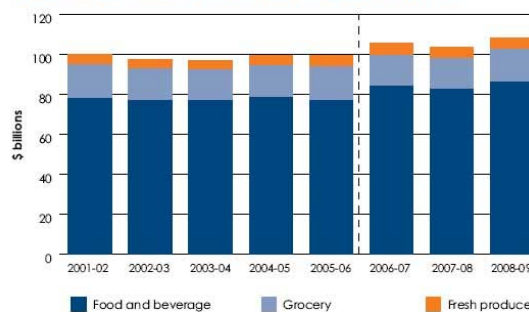
The growing and sustainable industry is made up of over 22,668 businesses and accounts for \$46 billion of the nation's international trade. The industry spends \$466.7 million a year on research and development.

The food and grocery manufacturing sector employs more than 296,300 Australians, representing about 3 per cent of all employed people in Australia, paying around \$13 billion a year in salaries and wages.

Many food manufacturing plants are located outside the metropolitan regions. The industry makes a large contribution to rural and regional Australia economies, with almost half of the total persons employed being in rural and regional Australia². It is essential for the economic and social development of Australia, and particularly rural and regional Australia, that the magnitude, significance and contribution of this industry is recognised and factored into the Government's economic, industrial and trade policies.

Australians and our political leaders overwhelmingly want a local, value-adding food and grocery manufacturing sector.

Figure 4.1: Industry turnover (\$2008-09)
Figure 4.1: Composition of the industry's turnover (\$2008-09)



Source: ABS, catalogue number 8221.0 and 8159.0

¹ Fast moving consumer goods includes all products bought almost daily by Australians through retail outlets including food, beverages, toiletries, cosmetics, household cleaning items etc.

² About Australia: www.dfat.gov.au



The AFGC Agribusiness Forum represents businesses with a role, or interest, in the transformation of raw materials and commodities that are used as inputs to the manufacture of fast moving consumer goods (FMCG).

The AFGC Agribusiness Forum's role is to develop and advocate a policy, regulatory and business environment that facilitates a profitable and internationally competitive agribusiness sector which, in turn, makes a significant contribution to the Australian economy.

The initial priorities of the Forum are to improve the cost competitiveness of the sector, and increase exports of food and beverage products.

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1. EXECUTIVE SUMMARY

Foreign investment is crucial to the future growth and competitiveness of the Australian agribusiness sector. Australian Food and Grocery Council's Agribusiness Forum strongly supports a foreign investment framework that provides Australian agribusinesses with the flexibility to choose the type of investment capital that matches their needs and risk/reward profile, regardless of whether that capital is from domestic or foreign sources.

AFGC Agribusiness Forum supports the assessment of significant investments to ensure they are in the national interest; however it does not believe that there is sufficient rationale or evidence for classifying agribusiness as a sensitive sector for the purpose of FIRB review, nor modifying the national interest test.

AFGC Agribusiness Forum supports increased transparency, monitoring and assessment of the levels of foreign investment in Australian agribusiness, provided it does not duplicate existing information collection and is used to promote open and transparent debate and make informed decisions.

2. INTRODUCTION

AFGC Agribusiness Forum welcomes the opportunity to make this submission in response to the Senate Standing Committees on Rural and Regional Affairs and Transport inquiry: *'Examination of the Foreign Investment Review Board National Interest Test'*.

AFGC established the Agribusiness Forum to provide a strong voice and leadership for agribusiness processors that operate in the post-farm gate part of the food supply chain, such as commodity processors and ingredient suppliers.

AFGC Agribusiness Forum has limited its views to foreign investment in agribusiness as defined above - it does not express views in relation to foreign investment in agriculture or agricultural land. Notwithstanding this, AFGC Agribusiness Forum notes there are some commonalities with foreign investment issues in those sectors.

3. FOREIGN INVESTMENT IN AUSTRALIAN AGRIBUSINESS

AFGC Agribusiness Forum supports foreign investment in Australia's agribusiness industry. Australia has benefited, and will continue to benefit, greatly from foreign investment in this and many other sectors of the Australian economy.

All businesses finance their operations in a range of ways, including direct equity investment, debt finance and portfolio investment (such as issuing shares). Non-equity investments may take other forms such as contract manufacturing, licensing or franchising. All of these types of investment may be from domestic or foreign sources.

While there are advantages and disadvantages of each type of investment, it is important that Australian agribusinesses can take advantage of the type of investment that meets their specific needs and risk and reward profile. This includes access to foreign investment.

Given Australia's low domestic savings rates, foreign investment will continue to be an important source of funds for Australian agribusinesses, enabling them to invest in research, skills, technologies and equipment that are vital to improving the productivity and competitiveness of Australian agribusinesses. Such improvements are particularly important given the trade challenges the industry faces as a result of the high Australian dollar.

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Stronger exports will generate income and employment growth and will assist Australian agribusinesses to gain economies of scale in production. This will in turn improve the competitiveness of Australian manufactured food in the domestic market compared to imports that are cheaper as a result of the high Australian dollar.

A continuing domestic production capability in the agribusiness industry will deliver direct benefits to the Australian economy and community through employment and economic growth, particularly in rural and regional areas where many of these businesses are located.

AFGC Agribusiness Forum supports government scrutiny of foreign investment to ensure that it is in the national interest and considers that this is currently achieved through the Foreign Investment Review Board's well established and effective regulatory system for assessing the impact of foreign investments.

4. FOOD SECURITY

A lack of foreign investment could see domestic production capability move offshore, reducing Australia's long term food security. AFGC Agribusiness Forum considers that domestic food security is more likely to be achieved if there is investment in Australia's food production capacity, including agribusiness, whatever the source of that investment.

For Australia to be truly food secure, it must have an advanced and comprehensive domestic food manufacturing sector. Food security is not synonymous with food self sufficiency. Although Australia exports surpluses of meat and grain, it relies heavily on the import of specialist food ingredients and food additives to maintain the current diverse food supply and cultural cuisines which Australians enjoy. Australia will continue to rely on these imports for the foreseeable future.

Moreover, maintaining a domestic food manufacturing sector, apart from contributing to economic wealth, provides greater opportunity for government to influence the food supply consistent with public health objectives. In addition, it increases the resilience of the supply chain providing greater flexibility for diverting and allocating foods to where they are needed in the case of natural disasters and emergencies.

5. THRESHOLD FOR THE ACQUISITION OF AGRICULTURAL BUSINESSES

AFGC Agribusiness Forum supports the current arrangements under which agribusiness is not treated as a sensitive sector and hence foreign purchases of Australian agribusinesses are assessed under the category of general business acquisitions.

AFGC Agribusiness Forum is concerned that new lower thresholds could potentially act as a barrier or deterrent to investment in Australian agribusiness and could have negative ramifications for Australia's outward capital investments if a similar approach is taken elsewhere, in either agribusiness or other sectors.

AFGC Agribusiness Forum supports increased transparency, monitoring and assessment of the levels of foreign investment in Australian agribusiness, provided it does not duplicate existing information collection and is used to promote open and transparent debate and make informed decisions.

6. NATIONAL INTEREST TEST

AFGC Agribusiness Forum supports the flexibility provided for in the current uncodified national interest test.

AFGC Agribusiness Forum supports a principle of ensuring competition in international markets for Australia's products; and ensuring no strategic loss of control in relation to marketing or purchase of Australia's agricultural products, or critical inputs such as water. However, AFGC Agribusiness Forum considers these concerns are already addressed through the current application of the national interest test.

In addition, competition concerns are adequately addressed through the ACCC's assessments of potentially anti-competitive conduct under the *Competition and Consumer Act 2010*.

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