

24th February 2011  
The Secretary  
Senate Standing Committee on Economics  
PO Box 6100  
Parliament House  
CANBERRA ACT 2600

Dear Secretary

### **Inquiry into Foreign Acquisitions Amendment (Agricultural Land) Bill 2010**

I am an economist who works in the area of foreign direct investment, technology and the knowledge economy with a focus on institutional factors that underpin international trade and investment flows. Here I offer a series of reflections rather than a full analysis of the issues related to this inquiry. This is a personal submission.

The twin issues of food security and concern with foreign ownership seem to be prime motivations for the proposed amendments to the Foreign Acquisitions and Takeovers Act 1975. Restrictions on monitoring of foreign direct investment needs to be considered in the light of international mutual obligations such as those associated with WTO – Australia's leadership of the Cairns Group, OECD investment guidelines, and regional agreements such as CER at its associated investment protocols.

Concerns regarding food security attracts a deal of public anxiety but needs to be considered in the light of a need to increase investment in agriculture, especially if the Doha round is ever concluded successfully. The challenge of increasing agricultural productivity can be seen in the context of the global network of production that typifies manufacturing and services in the 21<sup>st</sup> Century; this may well be the evolving model for agricultural production on a global scale.

Any comparison with Australia and New Zealand in regard to the treatment of foreign investment in land should be treated with caution. There are a range of specific cultural, political, social and environment concerns associated with the New Zealand requirement that acquisitions of 5 hectares land by foreign interests is subject to approval. I am currently involved in a research project that investigates these factors along with other aspects of the CER. Suffice it to say that 5 hectares (about 5 full sized rugby fields) is very little land in the Australian context. Even for quite productive land in the areas such as Riverland SA this limit is, in my view, inefficient regulation.

In the case of New Zealand it is not at all clear that these restrictions will prove to be in the long term national interest if they serve to deter foreign investment that might bring in new techniques – not so much in agriculture itself but as regards business practices, networks and benefits from market access to areas such as China, for dairy products and fruit.

Tight regulation of the acquisition of agricultural land will give the wrong signal to other foreign investors into Australia.

Australian farmers and others with interests in agricultural land, such as superannuation funds need to consider the detrimental effect of restrictions on land prices and net wealth. Older farmers looking to exit the sector or farmers on marginal land gain from higher prices of land.

An extended and transparent land register for agricultural land might have some merit if it assists in planning associated with schemes to raise productivity but these benefits could be mustered independently of any restrictions on foreign ownership.

If the legislature decided to proceed to further restrict foreign land acquisitions it should consider quite high limits in terms of values or hectares – the exiting limits seems reasonable to my mind. To promote productivity improvements covenants might specify that significant improvement (investment) needs to be undertaken within a period of say 5 years. However such well meaning intervention may prove costly to administer and apply so should be subject to careful cost benefit analysis before legislation is considered.

The notion of food security should not be conflated with notions of ownership and certainly not with notions of 'Australianness'. Our successful higher education exports seem to have suffered in recent years by similar loose populist debates.

Emerging research in the realms of international business studies and economics demonstrate the significant changes and challenges experienced by the manufacturing and services sectors globally. It is apparent that efficiency and rapid technological change leading to lower cost production, quality improvements and market access are associated with a pattern of production linked to international networks, complex supply and distribution chains; in fact what some call 'the global factory'. If rapid growth of food demand is the trend this century, driven by higher income for more of the world's people it can only be met by increased agricultural productivity. Well recognized and serious challenges related to ecology (e.g. water allocation and soil degradation) and sustainability of farming practices need to be addressed in most parts of the world. However a retreat to a protectionism that limits competition and cuts Australia off from international patterns of production seems ill advised and detrimental to holders of agricultural land and the nation.

I am happy to discuss these matters with the committee.

Greg Mahony

My permanent academic position is: Assistant Professor of Economics, Faculty of Business and Government, University of Canberra, ACT 2602. Tel: 6201 5482.

Email: [greg.mahony@canberra.edu.au](mailto:greg.mahony@canberra.edu.au)