

27 July 2018

The Standing Committee on Agriculture and Water Resources

PO Box 6021

Parliament House

Canberra ACT 2600

Dear Secretary

Re: Inquiry into superannuation fund investment in agriculture

Laguna Bay welcomes to opportunity to make a submission to the Inquiry into superannuation fund investments in Australian agriculture and commends the Committee for recognising the importance of reducing the barriers to entry of capital flows into the sector.

Laguna Bay is a wholly owned and domiciled Australian company specialising in investing and managing Australian agricultural assets. We have recently raised a \$313m agriculture fund (LBAF1) that has a mix of offshore investors who have given us a discretionary mandate that allows us to invest across a wide range of enterprises, geographic regions and up and down the supply chain. Laguna Bay is also the trustee of the Adveq Almond Trust (AAT2) which owns one the largest almond orchards in the world. The orchards are situated in northern Victoria and is approximately one third of the total area planted to almonds in Australia.

Our investors are sophisticated and experienced agricultural investors. Our investors have chosen to invest in LBAF1 as Australia has a natural comparative advantage in producing many exportable agricultural commodities. As you know, exportable goods are vital to our prosperity and there is increasing demand for the commodities that Australia produces as the middle-class appetite in Asia and the Middle East grows for safe, good quality produce.

We have now established two large scale assets for LBAF1; a mixed farming operation in Western Victoria and a dairy aggregation in north west Tasmania. We have invested to improve the infrastructure and productivity of both these aggregations substantially increasing output and employing more local people.

Laguna Bay has designed a unique joint venture model, designed to empower younger farmers with capital and support that assists in resolving succession issues that affect many family farming businesses. Our business model and capital allow young farmers to grow, develop and innovate. We like our operators to own their own farms and we scale them up with land we purchase in the same region. The farms are operated by a jointly owned operating company that is managed by our local farmer. The benefits for the local farmers include, a remuneration package commensurate with the size of the asset under management; they are paid a percentage of profit, succession planning is improved for the family business, provision of better WH&S support, better financial management and reporting, and assistance in negotiating long term sales agreements for their produce.

One of the opportunities we see is to use this capital, structure, operating model and our largescale production, to supply customers (sovereign and private) who are looking to improve their food security and who otherwise might consider investing directly in the sector themselves.

We feel that Australia must do whatever we can to capitalise on the current opportunities to increase the value and volume of our agricultural exports, increasing our capabilities and exploiting our natural competitive advantages whilst looking for opportunities to add value to agriculture outputs.

A capability can be as simple as being a low-cost producer delivering the right product (the exact specifications and quality), in the right quantities, at the right time. It can also be as complex as value adding to our products in the form of, for example, fresh meals exported daily to Asian markets. Either of these strategies requires low cost long term capital, scale and sophisticated participants. If done well, this should lift the prosperity of all stakeholders in agriculture and greatly benefit Australia.

In order to achieve this, we need to create the right business environment. Neutral, consistent, transparent and efficient rules and regulations treating all participants equally.

A competitive efficient and productive agricultural sector is the best way to attract capital.

Laguna Bay would like to address the second and third terms of reference:

2. 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
3. Are there any other practical barriers to superannuation fund investment in Australian agriculture?

Terms of reference 2; information barriers

Timely accurate information on the performance of the sector is vital to attracting more capital and creating a competitive, transparent, liquid and efficient market for the sector. Investors need more information on the relative operating performance of Australian farms and farmers to make informed investment decisions and track relative performance against other asset classes.

Timely, segmented farm performance data provides greater transparency for potential investors and existing farm business alike. Investors can use timely accurate historical farm data to:

- Assess relative performance of the sector against other asset classes, and the role that the sector plays in a diversified investment portfolio
- Establish simple benchmarks to efficiently assess potential asset and manager performance
- Assess asset and manager performance relative to their peers over time

Sector performance data over time is equally important for farmers wanting to attract capital. It provides farmers with an ability to determine if they are competitive against their peers in attracting capital and provides them with a platform against which to market themselves and their enterprise.

The farm level data needs to be able to be interrogated to allow identification of the characteristics of persistently high performing businesses, enterprises, and regions as there is a wide gulf in returns between average and high performing farmers. It is the persistently high performing business that will attract and retain capital.

However, information should not be limited to pre-farm gate. Consideration should be given to the supply of a wide range of data including soil maps, water and hydrology, climate, and transport. For example, supply chain costs account for up to 50 per cent of the total value of exports and accurate and timely information on supply

chain performance and costs will be important to establish the competitiveness of agricultural assets. A good example of supply chain cost reporting (and the provision of information more broadly) is the USDA Transport Services Branch¹ who supply a wide range of data on US agricultural transport and logistics.

To attract capital and retain capital irrespective of its origin the Australian agricultural sector needs to ensure it is providing at least the same level of sector performance data and transparency as other jurisdictions and asset classes.

We would like to also note that there are a number of private sector farm performance data providers and the Government should not seek to crowd them out with publicly funded services. Rather the Government, through agencies such as ABARES and BOM and the ABS, should look to deliver data that supports and enhances private sector farm performance services.

Terms of reference 3: removing practical barriers

There appears to be two main practical barriers to increasing Australian Superannuation fund investment in Australian agriculture:

1. Australian Superannuation funds have limited internal and access to third-party capacity to assess and manage investments in the sector²
2. A misalignment of market liquidity and the liquidity required by Australian Superannuation Funds to manage their portfolios and match superannuates investment decisions

A broader, deeper market of institutional investors and institutional grade investment opportunities would create the incentive for Australian superannuation funds and third-party providers to “tool-up” by investing in asset/investment assessment capacity. A deeper market would also create the incentive for asset managers, such as Laguna Bay, to increase capacity, and new entrants to offer management services.

A deeper market with a wider range of institutional investors would create more liquidity and better align the number and frequency of transactions with the portfolio management needs of the Australian Superannuation funds.

In our experience, the best way to create a broader and deeper market is to encourage sophisticated institutional foreign agricultural investors into the Australian market. However, at present there are several disincentives for foreign investors to invest in Australia. Of greatest concern is the inconsistent and arbitrary approach to regulating foreign investment in agricultural land and an uncompetitive tax regime.

The Australian Government has introduced several changes to the regulation of foreign investment in Australian agricultural land including:

- Approval from the Treasurer (taking in account advice from the Foreign Investment Review Board (FIRB)) to acquire more than a cumulative \$15m in total of agricultural land
- Foreign buyers of agricultural land must demonstrate that the land has been advertised to a wide domestic audience for at 30 days to get approval to purchase the land
- Changes proposed in the 2018 Budget to lift the MIT withholding tax rate for foreign owners of agricultural land from 15 per cent to 30 per cent.

¹ See <https://www.ams.usda.gov/services/transportation-analysis>

²



Our current and potential future investors have told us directly that Australia is already one of the highest taxed jurisdictions in the world and the proposed changes make that situation worse. Other investors have asked us what the next changes to foreign investment policy in Australia are and what they should factor into their investment decisions.

Attracting Australian superannuation investments in the sector requires a stable, predictable and competitive market for all types of capital including foreign capital.

We thank the Members of the Inquiry the opportunity to contribute. We are available to attend public hearings if required.

Your sincerely

Tim McGavin
CEO