HD The Australian - Shane Bilardi, Anthony Latimer and Tom Luckock - Chinese investment in Australian agriculture

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Partners Shane Bilardi (Melbourne), Anthony Latimer (Sydney) and Tom Luckock (Beijing) discuss Chinese investment in the Australian agricultural sector in an article in The Australian.

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China's investors could revitalise our agriculture

THE ongoing debate about the appropriate level of foreign investment in the Australian agricultural sector takes a particularly concerned tone when China is mentioned.

After all, China, as the rising global superpower, has more than $3 trillion in foreign capital reserves and a growing middle class demanding high-quality, safe and secure food supplies.

So surely it is only a matter of time before a wall of Chinese money arrives to pick off our most attractive agricultural assets? The unreasonably high foreign investment thresholds for agricultural assets will also allow it to do so without approval.

The reality is somewhat different. There have been notable exceptions, including Shandong Ruyi's acquisition of Cubbie Station, Bright Foods' acquisition of Manassen Foods and Beidahuang Group's investment in local landholdings.

But most Chinese companies interested in agricultural assets are some way off being ready to invest here. We know this because we are regularly asked to meet prospective Chinese investors considering these opportunities.

They are being encouraged, largely by the Chinese government, to look offshore for investments and are looking to understand the legal and business framework here.

Often this comes across as "tyre-kicking", as there might be plenty of interest and meetings, but little actual investment follows. Some Australian companies might find this frustrating but the reality is that many Chinese companies are still coming to terms with what is required to invest in offshore agricultural assets.

They have been investing in foreign mining, oil and gas, and infrastructure assets for over 20 years but few have been investing in agricultural assets and, among those few, most have been doing so for only a short time.

Agricultural assets are also often more complex than other assets. They are typically smaller and more dispersed and the need for specific management and operational expertise and to manage farmgate relationships makes these opportunities more challenging for Chinese investors compared with the larger engineering, political and financing issues they face with mining projects.

However, we are sorely in need of capital to develop the local agribusiness sector and, unlike mineral resources, there are plenty of alternatives to Australia in the agricultural sector, such as Canada, Brazil and Argentina. The ANZ/Port Jackson Partners report Greener Pastures revealed that Australia needs $600 billion of capital investment in the agricultural sector over the next 35 years to maximise our return from the growing demand from Asia and, in particular, China.

The danger is that if Australia makes Chinese investment here difficult or is slow to embrace it, Chinese companies will go elsewhere; while not funded by Chinese investment, New Zealand has already proved in dairy how much of a difference a head start can make.

Further, once the Chinese have invested in the supply chain in other countries, they will move from their Australian providers to their own subsidiaries or joint ventures. We have already seen this happen in other sectors.

Some will claim that there are other sources of that capital. There are already substantial investment inflows from North America, Japan and Brazil, for instance.

But the best way into the Chinese market is with a Chinese partner who understands the intricacies of the local market.

There are risks with that approach but they are mitigated in the agricultural sector as the supply chain cannot be replicated in China and, once established, is not easily replaced.

So rather than continue the pained and drawn-out debate about greater restrictions on Chinese investment, we need to work harder to attract it before others seize the advantage. There are several ways we can do this.

We need to change the perception about Australia's willingness to accept Chinese investment and give clear guidance on acceptable terms for these investments.

The continuing noise around foreign investment approvals for Chinese investors in the agricultural sector only emphasises to China that investing in Australian agricultural assets is risky business. The reality is that Chinese outbound investment approvals are likely to be harder to obtain than Foreign Investment Review Board approval, but the lack of clarity and certainty around foreign investment approval for Chinese companies, and particularly state-owned enterprises, in the agricultural sector looks like a high barrier when viewed from China.

We also need to work to close the gap between Chinese demand for agricultural investment and their readiness to invest. If local companies want to attract a Chinese partner, they need to be prepared to invest in the education process and build a trusted relationship over time. This can involve starting with a basic supply arrangement and then moving to a partnering/investment relationship over time.

We should think about co-investment models as well. We see Chinese investment in the local agriculture sector being better suited to joint ventures and co-investment than buyouts.

We should also explore opportunities for Chinese investment in infrastructure assets required to support our agricultural sector. It is sorely needed, an asset category they are familiar with, and an area of less sensitivity. Finally, we should complete the China-Australia free trade agreement.

In this way Chinese investment in Australian agriculture assets can help fuel a new boom for our economy.

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The content of this article is intended to provide a general guide to the subject matter. Specialist advice should be sought about your specific circumstances.

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