

FINANCIAL REVIEW

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HD **Farm sector needs foreign investment**
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Modest member Local investors cannot begin to supply the capital needs of our agriculture sector. Dan Tehan

Australia's agricultural sector is unique in our economy. In no other industry does the combination of weather, natural disaster, pest and simple organics hold as much sway as human pressures such as markets and good business management. The growing reality for farming is the more **operations** depend on "unknowns", the greater the need for a capital base.

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Over 80 per cent of Australian agricultural businesses are family owned and operated, which means they are efficiently run. Yet for some of our largest **operations**, significant capital reserves are the only way to combat the unknowns of the sector. This is where foreign investment kicks in and where Cubbie Station is providing an enlightening template.

Wayne Swan should rightly be remembered for his economic incompetence.

But he got it right with Cubbie Station. In the face of strong opposition the former treasurer allowed foreign investment to keep a major agricultural producer running, and the result is worth highlighting.

When Cubbie Station was sold after 10 years of crippling drought and with an accrued debt of \$300 **million**, there was real scepticism as to whether it could deliver a profit for its new owners, and badly needed income for the local community.

Yet after just two successful wet seasons in 2013 and 2014 the new owners have enjoyed gross annual revenue well over \$100 **million**.

Coupled with the **purchase** and \$5 **million** upgrade of the cotton gin next door and the full-time employment of nearly 50 staff, the turnaround is remarkable.

The difference is not that there was a huge change in business management or that there was a significant alteration in farming practice. It was that there were enough funds to capitalise on the rain that eventually came.

There was much argument when Cubbie Station was sold that this cotton asset, the largest irrigator in the country, was owned by foreigners.

Control over water, the farm's cotton, and fear of a loss of jobs were all concerns raised about the **sale**. There were obvious reasons why some Australians had these concerns. Some argued that this kind of overseas investment would mean that decisions that affect our land would be made in boardrooms in foreign countries. The land is an integral part of our national identity. From graziers, squatters and shearers in our colonial pastoral history, we have established a strong connection not just to the farm but to the earth itself. Not enough local capital

However, in maintaining this valuable asset we cannot ignore the fact that those living with the debts, pests and drought need help that sometimes only foreign investors seem willing to provide.

There is a simple reason why Australia needs foreign investment: we simply don't have enough capital domestically. IMF figures show that in 2013, Australia's capital flow was 28.4 per cent of GDP. Our national savings were only 25.1 per cent. Put crudely, we are in need of \$47 **billion** each year just to keep up with our investment needs domestically.

Countries like **China** have an excess of capital to give. They are producing a surplus amount that they are keen to invest in foreign ventures which they believe can be made profitable.

Not only has Cubbie Station been sustained by the investment of foreign capital, but it is still being managed by Australians. The share that remains controlled by Australian management continues to operate the farm and employ the domestic workforce. And 30 per cent of the current **Chinese stake** must be divested over the coming years.

Foreign capital is an important part of the agricultural mix. It strengthens the industry through innovation and can **lead** to deeper integration in the global marketplace. Most importantly, detractors must consider the alternative. Australia has a capital shortfall and local investors are lacking the confidence to invest in the sector. Our farms need capital and foreign investors to help foster growth.

Dan Tehan is the federal member for Wannon.

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