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Australian agriculture faces a future of increased corporatisation and foreign ownership of farms and the agribusiness value chain.

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Introduction

Before discussing the trends in corporate and foreign ownership of agricultural assets and their potential threat or benefit to Australian agriculture and agribusiness, there must be clear understanding of:

- what has been the historical background of ownership
- where it is currently
- what seems to be the likely trends

Understanding these will provide the platform to analyse whether or not there is a threat or merely a perception of threat, and if so, what may this change of ownership actually threaten.

Summary/Conclusion

For Australian agriculture to continue to grow, be productive, vigorous and competitive in an increasingly open global marketplace, it requires capital investment. Capital investment will come from existing Australian owned family enterprises that continue to expand, but due to the large amount of capital required with significant equity, there will be an increase in corporate and foreign ownership of Australian farms and agribusinesses.

This may be a threat to the traditional perception of farm ownership. However, if motivated by production and economic growth, whilst being aware of the concerns of the wider Australian community, corporatisation and foreign ownership should not pose a severe threat to Australian agriculture but should in fact contribute to the investment and innovation needed for Australian agriculture to meet the challenges and opportunities of the growing global demand for agricultural commodities.

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Farm Ownership and Corporate Trends in Australia

Consistent with World trends, in the twenty years to 2003,

- total Australian farm numbers declined by around one quarter (around 46 000 farms),
- the area under agricultural production in Australia declined by 9 per cent
- the average size of farms in Australia increased from 2720 hectares to 3340 hectares (an increase of 23 per cent).

In this period, agricultural production became more concentrated on large farms, seeing 10 percent of farms in Australia producing over 50 percent of output (*Productivity Commission 2005).*

From 2006 to 2011 farmer numbers continued to decline to 157,000, down by 19,700 (11 per cent) (*Australian Bureau of Statistics [ABS], 2012*) This has been in a large part driven by new technologies and the consequent economies of scale needed for farming enterprises to remain viable. Along with the trend in increasing farm size, there has been a significant increase in corporate ownership. Freshwater (2012) stated

"a corporate farm is an imprecise term that is typically used to represent those farms being at the right tail of the distribution of farm sizes."

A distinction must be drawn when discussing corporate farm ownership as to whether the corporation is *"corporate - corporate"* or *"family - corporate".* The vast majority of farming corporations are family owned enterprises as distinct from shareholder companies and multi member investment funds. With the decline in farmer numbers and an increase in the average size of farms, the trend to corporate ownership is increasing in both the family owned and corporate owned businesses.

The benefits of larger corporate farming are that they have a higher degree of commodity specialisation as this allows scarce management resources to be focused on doing one or two things very well. A larger corporate enterprise may be able to negotiate volume discounts for purchase inputs or premiums for the delivery of larger amounts of output *(Freshwater 2012).* On the down side, there is also the resultant increased risk that a high level of production specialisation brings compared to the more traditional mixed farming enterprise with diversified streams of income. As suggested by *Watson (2012*:

"*timing and attention to detail are of the essence in agricultural production".*

Corporation owned corporate farms may achieve economies of scale, but they tend to become less agile and cumbersome in making decisions due to being heavier at the top in their management. They tend to need a high level of management because of the accountability at several levels, in particular to their shareholders and investors. This can result in poor timing of decisions and implementation of those decisions that can lead on to poorer returns than the more agile decision making of a family run unit.

The increase in interest of corporations to invest in agriculture has been ascribed to lack lustre returns in other sectors of the economy compared to the less volatile nature of agriculture over the long term and the projected future of agriculture given expected global population and income growth. On the other hand, the inherent nature of Australian farming with its unique set of risks, such as seasonal conditions, commodity market fluctuations and volatile and reducing terms of trade has impeded investment by corporates. These risks are difficult for traditional corporations to quantify which in turn continues to restrict accelerated growth of "corporate – corporate" farming in Australia,

whilst "family – corporate" ownership continues to grow.
The considerable criticism of corporate farming has largely come from urban consumers which are becoming increasingly concerned about how their food is produced as much as the quality of the food. The growing disconnection between farmers and urban society has led to corporate farms being targeted for producing unhealthy food, damaging the environment and mistreating animals. In reality, corporate farms have no more incentive in behaving in this manner than do operators of smaller farms or farms under other ownership structure *(Freshwater 2012).*

Foreign Ownership in Australian Agriculture

There has been growing concern both within the agricultural sector as well as the broader community about foreign ownership of Australian agricultural assets. Foreign investment in Australian agriculture has historically been a part of the fabric of the industry. Substantial enterprises particularly in the northern pastoral zones of Queensland and the Northern Territory have been owned by British, European and North American interests for decades. Due to the rapid growth of economies in Asia, the Middle East and the Sub Continent, investment in Australian agriculture has increased from these regions. The vast differences in cultures of these countries to what has traditionally been a European culture have some observers and the media wary of the motivation behind the purchasing of farming enterprises and the agribusiness value chain.

In the thirty years to 2003-04, agricultural productivity growth averaged 2.8 percent per annum, mostly due to technological advances. In recent years this has declined to only 1 percent *(National Farmers Federation,2012)*. This decline in productivity growth has led industry leaders and governments to encourage increased investment in agriculture to re-stimulate productivity gains. Foreign capital investment is a significant part of this strategy.

An overview of the level of foreign ownership in Australian agriculture was conducted by the *Australian Bureau of Statistics (ABS) Agricultural Land and Water Ownership Survey (ALWOS), June 2013*. This report found

- of the total of 132,371 farm businesses in Australia, 130,859 (98.9%) were wholly Australian owned and 806 (0.6%) were foreign owned.
- foreign ownership included joint ventures of which 62% of that 806 had more than 50% foreign ownership.

That is, the study found that in terms of total farm ownership, the portion of foreign ownership seemed relatively small. The size of these enterprises with a level of foreign ownership is what raised the interest of many observers. Of the 400 million hectares of agricultural land in Australia, 49.6 million hectares (12.4%) had some level of foreign ownership. This was an increase from 31 December 2010 to 30 June 2013 of 4.7 million hectares (11%). In 2013, 47.2 million hectares (95%) of agricultural land with some level of foreign ownership was owned by only 45 businesses with average land holdings in excess of 100,000 hectares each. An interesting contrast was that over the same period, foreign ownership in holdings of less than 400 hectares fell from 86,000 hectares (680 businesses) to 32,000 hectares (310 businesses) *(ABS 2014).*

Concern about foreign investment has been a long term issue and led the Commonwealth Government to create the Foreign Investment Review Board (FIRB) in 1976. Growing public concern in the growth of foreign investment in large agricultural holdings led the FIRB to review its policies in 2015.

A major community concern with foreign investment and ownership is the perceived motivations behind the purchases. In the ALWOS report, foreign ownership is not broken down into country of origin or whether the

investment is by an individual, corporation or sovereign state. The FIRB role is to consider all purchases on a case by case basis, with the policy to consider the effect on

- *"employment and prosperity in Australia's local and regional communities"*
- *"the extent to which the investor will develop the project and ensure a fair return to the Australian people"* (Kotsios 2016).

Identifying the entity of the purchaser is of high importance to many in the broader community, more specifically with Chinese investors. Despite the growth of enterprise in China, many corporations are state owned as well as by individuals that invest government capital. Whist investment in agriculture should be promoted, the ownership of Australian land and key components of the agribusiness value chains by sovereign states is broadly rejected by many in the Australian community.

Australian agriculture can gain many positives from foreign investment and ownership. Many foreign investors over time have made significant contributions to growth in the sector. Individuals, such as American Dean Phillips has recently placed his 14,166 hectare irrigated and dryland cropping enterprise in northern New South Wales on the market. Mr Phillips has been credited with establishing Australia's cotton industry, and is but one example of how foreign investment and expertise can benefit the industry at large.

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