PARLIAMENT OF THE COMMONWEALTH OF AUSTRALIA

Super-charging Australian Agriculture

Inquiry into superannuation fund investment in agriculture

House of Representatives Standing Committee on Agriculture and Water Resources

December 2018
CANBERRA

ISBN 978-1-74366-941-9 (Printed Version)

ISBN 978-1-74366-942-6 (HTML Version)

Contents

Members

Chair

Mr Rick Wilson MP	O'Connor, WA

Deputy Chair

Ms Meryl Swanson MP	Paterson, NSW

Members

Hon Dr David Gillespie MP (from 10/9/2018)	Lyne, NSW
Hon Joel Fitzgibbon MP (until 10/9/2018)	Hunter, NSW
Ms Justine Keay MP (from 10/9/2018)	Braddon, TAS
Mr Matt Keogh MP	Burt, WA
Mrs Nola Marino MP	Forrest, WA
Mr Tony Pasin MP	Barker, SA
Mr Rowan Ramsey MP	Grey, SA

Committee Secretariat

Joel Bateman, Committee Secretary
(from 10/9/18)

Melanie Brocklehurst, Committee Secretary
(until 7/9/18)

Jeff Norris, Inquiry Secretary
(from 2/10/18)

Louise Milligan, Senior Researcher

Benjamin Vea Vea, Researcher

Danny Miletic, Office Manager
(until 21/9/18)

Terms of Reference

To inquire into and report on whether:

- there are any regulatory requirements imposed on superannuation funds by the Australian Securities and Investment Commission (ASIC), Australian Prudential Regulation Authority (APRA) and any other relevant regulators, which are acting as a barrier to superannuation fund investment in Australian agriculture;
- 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
- there are any other practical barriers to superannuation fund investment in Australian agriculture.

List of Recommendations

Recommendation 1

3.31 The Committee recommends that the Australian Government prioritise implementing the *Roadmap to Improve the Agricultural Statistics System*. This should focus on achieving the identified outputs, including appropriate levels of detail and timeliness for agricultural data. The funding to allow for industry cooperative development and maintenance of a flexible future data environment should be part of these prioritised outcomes.

Recommendation 2

3.47 The Committee recommends that the Australian Government investigate the following to reduce the impact of foreign investment and taxation rules on agricultural investment:

- Reviewing the rules regarding foreign investment advertising requirements and managed investment trust tax rates, and consider any unintended consequences when applied to investment in agriculture by companies investing on behalf of foreign interests or in tandem with domestic investors; and

- Engaging with state and territory governments regarding the impact of stamp duty and land tax on agricultural investment, while investigating options for taxation offset relief at the Commonwealth level in appropriate circumstances.

Recommendation 3

3.63 The Committee recommends that the Australian Government engage with Council of Australian Governments councils and agricultural peak bodies to develop an information and promotional platform on the benefits of investing in Australian agriculture.

This platform could then be promoted to the superannuation and investment sector, both domestically and internationally, to supplement the existing international promotion undertaken by Austrade.

Recommendation 4

3.81 The Committee recommends that an initial superannuation and agricultural industry investment working group be convened, facilitated by the Australian Government in the first instance, to identify and promote improved business process, structure and corporate nature, that would attract increased investment.

1. Introduction

1.1 Agricultural commodities provide approximately $60 billion annually to the Australian economy, making the sector a major economic contributor.[1]

1.2 According to Industry Super Australia (ISA), the sector has the potential to be even bigger, but will require 'significant and patient financial backing'.[2] The sector offers 'a variety of investment opportunities with products that are highly valued by domestic and global consumers.[3]

1.3 Mr Ed Peter, Group Chairman of Duxton Asset Management, explained the benefit of investing in agriculture over other assets like energy, metals and mining, is that agriculture 'is a gift that keeps on giving':

> With both energy and metals and mining, once I dig it out, it's gone. [Agriculture] is a gift that keeps on giving. As long as I husband my land, I will get a return every year.[4]

1.4 The appeal of Australian agriculture is our country's size and 'variety of climatic zones' that enable producers to offer a diverse range of commodities.[5] For example, food products range from 'annual and permanent crops, livestock and various animal and insect products,

---

1 Consolidated Pastoral Company (CPC), *Submission 15*, p. [1].

2 Industry Super Australia (ISA), *Driving Super Fund Investment in Agriculture: Discussion Paper*, June 2017, p. 1.

3 ISA, *Submission 10*, p. 2.

4 Mr Ed Peter, Chairman, Duxton Asset Management, *Committee Hansard*, Canberra, 25 October 2018, p. 2.

5 ISA, *Submission 10*, p. 2.

including everything from mushroom growing to beekeeping'.[6] Additionally, Australia's geographical proximity to Asia and its growing middle-class provides access to exportation opportunities for such commodities.[7]

1.5 Given the current stable base of agricultural product, and its growing appeal in neighbouring markets, the attractiveness of investment in agriculture sector interests would appear logical, especially from the significant capital available from superannuation funds within Australia itself.

1.6 However, there is a lack of superannuation fund investment in the industry due to:

- complex foreign investment rules;
- fund manager inexperience;
- environmental concerns;
- volatility of the commodities market; and
- an absence of sector performance data.

1.7 Both the Australian Securities and Investment Commission (ASIC) and the Australian Prudential Regulation Authority (APRA)—regulator of the financial services industry and enforcer of prudential standards across the superannuation industry respectively—indicate that no specific regulatory or legislative barriers to agricultural investment exist within their remits.[8]

1.8 Despite this, industry analysis suggests that Australian superannuation funds 'only [hold] a very small portion of farm assets in Australia'.[9]

1.9 However, superannuation funds are interested in agriculture. ISA notes that 'Australian based managed funds…have invested or committed over $2.3 billion' in the sector,[10] with industry superannuation funds investing $1.6 billion in agricultural assets since 2017.[11]

---

6 ISA, *Driving Super Fund Investment in Agriculture: Discussion Paper*, June 2017, p. 3.

7 ISA, *Submission 10*, p. 2; Laguna Bay Pastoral Company (LBPC), *Submission 17*, p. 1.

8 Australian Securities & Investments Commission (ASIC), *Submission 11*, pp. 1–2; Mr Stephen Glenfield, General Manager, Specialised Institutions Division, Australian Prudential Regulation Authority (APRA), *Committee Hansard*, Canberra, 21 June 2018, p. 5; APRA, *Submission 2*, p. 1.

9 ISA, *Driving Super Fund Investment in Agriculture: Discussion Paper*, June 2017, p. 3.

10 ISA, *Driving Super Fund Investment in Agriculture: Discussion Paper*, June 2017, p. 3.

11 ISA, *Submission 10*, p. 1.

1.10 According to the National Farmers' Federation (NFF), Australian farmers export approximately 67 per cent of their produce, but further investment is needed to build efficiency and competitiveness.[12]

1.11 The Consolidated Pastoral Company (CPC) too believes a crucial element to 'Australian agriculture realising its potential is access to capital'.[13] CPC cites research that estimates a capital investment of $600 billion is required in Australian agriculture from now until 2050 to support production growth. Noting that the superannuation industry holds $2.6 trillion on behalf of its members, the CPC says the sector needs to be able to entice investment from this source of substantial capital.[14]

1.12 Initiatives that grow overall agricultural business profitability, and knowledge and experience in the sector, will see increased capital investment from varied sources, including superannuation funds.[15]

About this inquiry

1.13 This inquiry was initiated when, on 24 May 2018, the then Treasurer, Hon Scott Morrison MP, asked the Committee to inquire and report on whether:

- there are any regulatory requirements imposed on superannuation funds by ASIC, APRA and any other relevant regulators, which are acting as a barrier to superannuation fund investment in Australian agriculture;
- 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
- there are any other practical barriers to superannuation fund investment in Australian agriculture.

1.14 The Committee received 21 submissions and three supplementary submissions, and held eight public hearings. Details of these are included at appendices A (submissions) and B (public hearings) of this report.

---

12 National Farmers' Federation (NFF), *Submission 16*, p. 1.

13 CPC, *Submission 15*, p. [7].

14 CPC, *Submission 15*, pp. [1, 7–8].

15 NFF, *Submission 16*, p. 3.

1.15 This report discusses some of the barriers—regulatory and otherwise—that have to date limited superannuation fund investment in agriculture. The focus throughout is on practical actions the Australian Government can take to remove these barriers and encourage further investment. Recognising that all investments carry some level of risk, only those specific to agriculture will be considered.

1.16 The report consists of three chapters:

- Introduction;
- Regulatory barriers; and
- Practical barriers.

2. Regulatory barriers

Investment regulatory barriers

2.1 From the inquiry's outset, the Committee established that no distinct financial regulatory barriers to superannuation fund investment in agriculture exist in Australia. This was identified by both investors and the regulators themselves. [1]

2.2 The Australian Prudential Regulation Authority (APRA) and the Australian Securities and Investment Commission (ASIC) indicated that no regulatory barriers existed in their fields of responsibility.

2.3 APRA, responsible for establishing and enforcing prudential standards in the superannuation industry, said that it:

> …does not impose any specific regulatory requirements on superannuation funds in relation to investment in Australian agriculture.
>
> Superannuation trustees must comply with legislative and prudential requirements including the requirement to have an investment strategy and an investment governance framework in place. These requirements do not proscribe, nor prevent, particular types of investments.[2]

2.4 Additionally, when questioned specifically as to whether there is a legislative barrier to agriculture investment, APRA representatives noted that:

---

1 Prime Super, *Submission 6*, p. 10; Agribusiness Australia, *Submission 18*, p. 4; National Farmers' Federation (NFF), *Submission 16*, p. 3; Select Harvests, *Submission 20*, p. 9.

2 Australian Prudential Regulation Authority (APRA), *Submission 2*, p. 1.

> [C]ertainly not in the APRA legislation. The APRA legislation effectively opens up to invest in what the trustee has the expertise and the access to invest in. We don't say you can or you can't do any particular type of investment.[3]

2.5 While its role is to regulate and enforce companies and financial services businesses to protect consumers, investors and creditors, ASIC highlighted that it:

> …does not impose regulatory requirements on superannuation funds in relation to any particular investments, including in relation to agriculture.
>
> The laws ASIC administers are concerned with the investment activities of superannuation funds to the extent that the activities relate to the funds' conduct and disclosure with respect to fund members.[4]

2.6 ASIC explained that the form of disclosure requirements may vary depending on the nature of the investment, but 'does not consider that these requirements are acting as barriers to investment in agriculture'.[5]

Financial regulation barriers for overseas investors

2.7 While this inquiry's focus was on investment by Australian-based superannuation funds, the rules surrounding foreign investors (including overseas pension funds) are also relevant. This is because investment funds often pool Australian and overseas investors, and the rules applicable to overseas investors therefore can apply to Australian ones as well.

2.8 In accordance with the *Foreign Acquisitions and Takeovers Regulation Act 2015*, administered and enforced by the Foreign Investment Review Board (FIRB), foreign investment in the agricultural sector (including the procurement of agricultural land) must undergo an approval process. Foreign investments (excluding foreign government investors) in agribusiness with a value greater than $57 million, or in agricultural land, where the investors' accumulative land holdings exceed $15 million, require the Australian

---

3 Mr Stephen Glenfield, General Manager, Specialised Institutions Division, APRA, *Committee Hansard*, 21 June 2018, p. 5.

4 Australian Securities & Investments Commission (ASIC), *Submission 11*, p. 1.

5 ASIC, *Submission 11*, p. 2.

Treasurer's approval. Exemptions apply for trade agreement partners, but a $0 threshold applies to foreign government investors.[6]

2.9 Additionally, the Australian Taxation Office Register of Foreign Ownership must be notified of all land acquisitions by foreign investors, regardless of their value and the need for the Treasurer's approval.[7]

2.10 The approval process is aimed at ensuring that the sale of assets or land is open and transparent, with considerations pertaining to:

- 'the timetable and scale of the sales process,' including mandatory 30-day public marketing campaign within the six months period prior to the sales agreement; and
- 'the number of interested parties,' including participation and/or opportunities for Australian investors.[8]

2.11 Laguna Bay Pastoral Company (LBPC) noted these requirements are impediments to foreign investment in the agricultural sector.[9] Areas of concerns and hindrance highlighted included:

- inconsistent and arbitrary regulation of foreign investment in agricultural land and an uncompetitive tax regime;
- approval from the Treasurer…to acquire more than a cumulative $15m in total of agricultural land;
- foreign buyers [to] demonstrate that the land has been advertised to a wide domestic audience for 30 days.[10]

2.12 Mr Timothy McGavin, Chief Executive Office of LBPC, stressed that their major barrier is the 30-day marketing rule, saying 'it has to go and it has to go urgently'.[11]

---

6 Foreign Investment Review Board (FIRB), 'Agriculture', http://firb.gov.au/investment/agricultural/, accessed 19 November 2018; FIRB, 'Agricultural land investments [GN17]', http://firb.gov.au/resources/guidance/gn17/, accessed 19 November 2018.

7 FIRB, 'Agricultural land investments [GN17]', http://firb.gov.au/resources/guidance/gn17/, accessed 19 November 2018.

8 FIRB, 'Agricultural land investments [GN17]', http://firb.gov.au/resources/guidance/gn17/, accessed 19 November 2018.

9 Laguna Bay Pastoral Company (LBPC), *Submission 17*, p. 3.

10 LBPC, *Submission 17*, p. 3.

11 Mr Timothy McGavin, Chief Executive Officer, LBPC, *Committee Hansard*, p. 10.

2.13 Mr McGavin is also concerned that under current FIRB regulations LBPC, although 'a wholly owned Australian company', is treated in the same way as a foreign-owned investment firm because they have 'a mix of offshore investors'.[12] The impact of having foreign investors co-investing with locally owned funds is that the relevant Managed Investment Trust (MIT) tax rate increases from 15 per cent to 30 per cent.[13] Mr McGavin stated that:

> We're getting treated the same as a Chinese investment corporation, and we're very different to them. We're not a trade buyer. We're not a sovereign fund that's government owned. We've got pensions that are deemed government but we're all put in the same bucket. Split them out; work out who's a pension fund and who's a sovereign. There's a big difference.[14]

2.14 The Consolidated Pastoral Company (CPC) agrees that the current regulatory regime is a deterrent to foreign investment in agriculture due to its complexity.[15]

2.15 In highlighting these concerns, CPC noted that the complexities of foreign investment have flow-on effects to domestic investment:

> It is not only CPC's view but also CPCs' experience that the complexities and inconsistencies in the current foreign investment regime have the potential to stifle foreign investment in Australian agriculture and damage the Government's broader policy agenda.
>
> Secondly, reforming the domestic regulatory environment has limited value if the foreign investment regulatory regime is complex and deters potential investors.
>
> Thirdly, a complex and inconsistent foreign investment regime can also deter domestic institutional investors who are concerned the regime will limit the size of the market when they wish to exit.[16]

---

12 LBPC, *Submission 17*, p. 1; Mr Timothy McGavin, LBPC, *Committee Hansard*, Canberra, 18 October 2018, p. 10.

13 Mr Timothy McGavin, LBPC, *Committee Hansard*, Canberra, 18 October 2018, p. 7; LBPC, *Submission 17.2*, p. [2].

14 Mr Timothy McGavin, LBPC, *Committee Hansard*, Canberra, 18 October 2018, p. 10.

15 Consolidated Pastoral Company (CPC), *Submission 15*, pp. 1, 8.

16 CPC, *Submission 15*, p. 8.

Other regulatory barriers

2.16 While there may not be specific financial regulatory barriers to superannuation investment in agriculture, other regulatory barriers exist. Dr Jason West from the University of Queensland's School of Agriculture and Food Sciences identified some of these:

> There are regulatory impediments against superannuation funds imposed by a range of authorities acting as a barrier to superannuation fund investment in Australian agriculture. The compliance framework confronting agricultural investors concerning land use, chemical control, livestock treatment and crop management is substantial. This prevents interest from private investors directing funds into anything beyond farmland itself.[17]

2.17 Dr West acknowledged that while these regulatory requirements (such as environmental protection and land use) are not unique to the agricultural sector, the regulatory burden to meet these requirements may act as a deterrent to investment.[18]

2.18 Other submitters identified certain regulatory or reporting requirements that may also act as a deterrent to investment in agriculture, from the perspective of either superannuation investors or individuals acting as trustees for self-managed superannuation funds.

2.19 Ms Jo-Anne Bloomfield outlined a number of regulatory impediments to investment in agricultural enterprises by self-managed superannuation funds (SMSFs), operated under the *Australian Superannuation Industry (Supervision) Act 1993*.[19]

2.20 Whilst these regulatory impediments do not act as barriers to major superannuation investment, the requirement for SMSF trustees to comply with extra regulation may prevent investment or expansion of operations managed by SMSFs in the sector.

---

17 Dr Jason West, *Submission 1*, p. 5.

18 Dr Jason West, University of Queensland, *Committee Hansard*, 20 September 2018, Canberra, p. 4.

19 Ms Jo-Anne Bloomfield, *Submission 14*, pp. 2–4.

The perception of risk as a barrier

2.21 ASIC's SmartMoney website illustrates another type of barrier, describing agribusiness investments generally (not just those from superannuation funds) as 'very risky':

> Agribusiness schemes may offer attractive tax benefits, but they are very risky. Many things can go wrong, for example:
>
> - crops can fail;
> - plants and animals can lose value;
> - market prices will fluctuate over time, making investment returns difficult to predict;
> - the scheme manager may collapse; and
> - it is virtually impossible to on-sell your investment.
>
> For these reasons, agribusiness schemes are not appropriate for most people.[20]

2.22 The webpage also highlights 'the unpredictable nature of agribusiness schemes', that 'your money may be locked up for many years and exposed to high risk over that time' and notes that investors 'should avoid investing more than a small portion of [their] money in agribusiness schemes'.[21]

2.23 The advice concludes:

> The high risk of agricultural schemes means you may lose some or all of your money, or make a worse return than a less risky investment. Of course, some schemes will succeed - but be very cautious and always seek professional financial advice.[22]

2.24 This risk-adverse profiling of agricultural investment was a point made by a number of stakeholders, highlighting that the financial perception of

---

[20] ASIC MoneySmart, *Agribusiness schemes*, https://www.moneysmart.gov.au/investing/complex-investments/agribusiness-schemes, accessed 27 June 2018.

[21] ASIC MoneySmart, *Agribusiness schemes*, https://www.moneysmart.gov.au/investing/complex-investments/agribusiness-schemes, accessed 27 June 2018.

[22] ASIC MoneySmart, *Agribusiness schemes*, https://www.moneysmart.gov.au/investing/complex-investments/agribusiness-schemes, accessed 27 June 2018.

agricultural enterprise in Australia is a significant hurdle to overcome if attitudes are to change.[23]

2.25 As Industry Super Australia (ISA) noted, some high-profile failed investments in the past have 'skewed perceptions amongst current superannuation fund trustees and fund advisers'.[24] Amongst other things, ISA pointed to the 'tougher and less predictable' nature of Australian agricultural conditions compared to international farming areas.[25]

2.26 Prime Super pointed to the environment of superannuation investment and noted that, while long-term performance of investment in agriculture may be strong, short-term risk causes problems for investment funds:

> Both the Government and APRA are regularly quoted on the need to remove the bottom quartile of underperforming funds. Any one year of underperformance contributes to the risk of longer term underperformance, therefore the investment focus of superannuation funds is always on delivering a strong return over the short term, which then roles out to provide strong long term performance. An asset class that provides a risk to short term performance is therefore one to be avoided.[26]

2.27 Ultimately, the risk-return profile of agricultural investment, in any suitably large scale, is unacceptable to superannuation funds in Australia, especially as the data and market understandings identified in this chapter contribute to investment scepticism.

Sector-specific barriers

2.28 The nature of agriculture as a sector presents unique barriers, beyond those discussed above. These barriers include:

- liquidity;
- environmental and related risks;
- international markets; and
- regulatory uncertainty.

---

23 Dr Jason West, *Submission* 1, p. 7; Australian Ethical Investment Ltd, *Submission 4*, p. 2; Prime Super, *Submission 6*, p. 5; Investor Group on Climate Change, *Submission 13*, p. [1]; NFF, *Submission 16*, p. 3; LBPC, *Submission 17.1*, p. [3].

24 ISA, *Submission 10*, p. 2.

25 ISA, *Submission 10*, p. 9.

26 Prime Super, *Submission 6*, p. 2.

Liquidity

2.29 Investments in agriculture need long-term commitments, whereas the majority of investors generally prefer or even require liquidity options. Superannuation investors in particular need access to liquid assets due to the requirement to be able to access funds to pay for rollover requests and lump sum option benefits.

2.30 This lack of liquidity is often cited as a benefit of investing in agriculture, where 'patient capital' can be utilised to fund long-term investments, without the constant flux of market volatility. This point was made, for instance, by Dr West:

> Agriculture assets require access to patient capital; that is, capital that does not need to generate returns year-on-year, but returns over the natural business cycle. The need for long-term asset returns to fund long-term liabilities would suggest agriculture is a well-matched investment to fund the retirement needs of Australians.[27]

2.31 However, Prime Super argued that it is misleading to consider superannuation fund investments as long-term:

> As a superannuation fund invests for a large pool of members there is a need to:
>
> - be able to provide liquidity to those members that are nearing retirement, to allow them to withdraw all or part of their superannuation account;
> - be able to provide liquidity for those that are in retirement, through the payment of an income stream;
> - meet ongoing benefit payments to those members that transfer to other funds or are in receipt of death or disability payments; and
> - provide the best outcome for all members over every economic cycles.
>
> The above apply every year, as in every year there are a number of new members joining the Fund and beginning their long term investment in superannuation as well as a number of members that have reached retirement age and are therefore withdrawing their account to fund their retirement.
>
> Whilst superannuation is a long term investment it is also necessary to deliver a strong short term return each and every year.[28]

---

27 Dr Jason West, *Submission 1*, p. 9.

28 Prime Super, *Submission 6*, p. 2.

2.32 As such, Prime Super described liquidity as 'probably the key risk associated with investing in agriculture'.[29]

2.33 This point was also recognised by Warakirri Asset Management, who noted that larger funds might find agricultural assets more suitable than would other fund types:

> From a structural perspective, not all superannuation funds are necessarily suited to an investment in an illiquid asset like Agriculture. Large scale defined pension funds or defined contribution funds, backed by a large member base and consistent net inflows, have the necessary asset size and investment time frame, driven by certainty around funds under management that may warrant an investment in such an asset.[30]

2.34 CPC identified the illiquidity of agricultural investments as one of the main barriers to greater superannuation fund investment in the sector.[31]

2.35 APRA outlined that the distinction between a liquid and illiquid asset is not 'black and white', but the 'working definition will tend to be: something that can be liquidated without a significant loss in value within about 30 days'.[32]

2.36 This definition highlights the dilemma that superannuation investment faces with potential agricultural assets, as the ability to liquidate an agricultural asset within 30 days without loss will not necessarily align with their rollover requirements and liquidity considerations.

2.37 Industry Super Australia diverts from this opinion of liquidity as a risk or barrier to investment, directly rejecting the issue of liquidity of these assets for larger superannuation funds.[33] Whether this is a matter of opinion, or a scale issue regarding the ability for larger funds to absorb asset flexibility in their overall investment pool, is unclear as no other witnesses or submitters rejected liquidity as a barrier.

---

29 Prime Super, *Submission 6*, p. 6.

30 Warakirri Asset Management, *Submission 7*, p. [2].

31 CPC, Submission 115, p. [4].

32 Mr Craig Roodt, Head of Investment Risk, APRA, *Committee Hansard*, 21 June 2018, Canberra, p. 4.

33 Mr Stephen Anthony, Chief Economist, ISA, *Committee Hansard*, 23 August 2018, Canberra, p. 3.

Environmental and climatic risk

2.38 For some prospective investors, especially superannuation funds looking for secure and stable prospects, the impact on the agricultural sector from external or environmental influences poses too great a risk. Of specific note is the sector's vulnerability to environmental and climatic variability.

2.39 Prime Super highlighted, as one of the main reasons for their own unsatisfactory outcomes investing directly in agriculture, that 'climatic events (the drought during the 2000s) had a significant impact on the business, from the cost of running the business and the reduced quantity of crop'.[34]

2.40 While acknowledging that the economy as a whole is affected by environmental factors, Prime Super noted that the agricultural sector is 'fundamentally impacted'.[35] Whereas other sectors can ameliorate impacts by changing practices or sources of materials, agriculture is generally bound to the land, water and climate of the region it is located in.

2.41 Australian Ethical Investment Ltd argued that the nature of much of the animal agricultural sector rules it out as an investment choice for ethical investors:

> …environmental, human rights and animal welfare considerations mean we rule out large-scale commercial animal agriculture companies and invest selectively in other forms of food agriculture.[36]

2.42 Agriculture as a sector poses concerns for investment–both superannuation and otherwise–that has ethical factors to consider. Several significant factors have been identified:

- greenhouse gas emissions;
- deforestation and biodiversity loss;
- water scarcity and water use;
- antibiotics;
- waste and water pollution;
- working conditions;
- food safety;

---

34 Prime Super, *Submission 6*, p. 1.

35 Prime Super, *Submission 6*, p. 5.

36 Australian Ethical Investment Ltd, *Submission 4*, p. 1.

- sustainable proteins; and
- animal welfare.[37]

2.43 For example, Australian Ethical Investment Ltd decided to divest from a salmon farming company due to concerns about the sustainability of the company's practices.[38]

2.44 The scale of this type of investment, and its consideration for superannuation funds, should not be underestimated:

> As of 2018, 81% of the largest super funds have embedded a formal commitment to responsible investment (up from 70% in 2016). We expect this trend to continue, driven largely by consumer demand. Consumer research conducted in 2017 revealed that nine in ten Australians expect their super or other investments to be invested responsibly and ethically.[39]

2.45 To respond to these concerns, Australian Ethical Investment Ltd suggested that greater recognition within the sector of this barrier and moving to address the perceived business risk that it brings would be necessary:

> Australian agricultural businesses need to do more to disclose how they are managing environmental, human rights and animal welfare risks. This is crucial to allow investors to properly assess the risks and returns of investment in the sector.[40]

2.46 CPC highlighted that the agriculture sector must invest in 'world's best practice animal welfare and environmental management standards' to attract investment.[41]

Commodity market and currency risk

2.47 An inherent risk to the agriculture sector, and relevant to investment considerations, is the impact that cycles in commodity markets can have on the commodity outputs that most agribusinesses produce.

2.48 Performance assessments of the sector by potential investors will always assess commodity cycles as part of their risk profile.[42]

---

37 Australian Ethical Investment Ltd, *Submission 4*, p. 2.

38 Australian Ethical Investment Ltd, *Submission 4*, p. 2.

39 Australian Ethical Investment Ltd, *Submission 4*, p. 2.

40 Australian Ethical Investment Ltd, *Submission 4*, p. 4.

41 CPC, *Submission 15*, p. [11].

2.49 Select Harvests identified that their success in attracting superannuation investment into their almond interests have required 'shareholders who have been willing to 'ride thru' the almond commodity price cycle'.[43]

2.50 As a natural consequence of this commodity risk, the fluctuations in currency value has a related risk, as any commodity exported and traded in overseas markets will be affected by the value of the Australian dollar.

2.51 This risk was noted by Prime Super, whereby the value of export-quality crops was 'significantly impacted' by fluctuations–including a period of above-US Dollar parity–of the Australian Dollar.[44]

2.52 Select Harvests acknowledged this impact as well, with the majority of their almond crop being traded in US dollars.[45]

Regulatory uncertainty risk

2.53 More than most sectors in the Australian economy, agriculture exists in a permanent state of flux. The inherent uncertainty faced by those in the sector, including as a consequence of the points mentioned above, leads to further uncertainty in the regulatory environment.

2.54 ISA identified the absence of a strategic national policy as a barrier to agricultural investment, arguing that efforts since the 1980s to deregulate the sector have led to decreased competition, the 'locking up' of supply-chain infrastructure and the power of the two grocery giants to dictate prices.[46]

2.55 The Investor Group on Climate Change (IGCC) also highlighted the need for policy consistency, noting that 'there is a need for policy certainty and political consensus … to underpin the development of long-term risk assessments … and to provide certainty to investors'.[47]

2.56 CPC Chief Executive Officer, Mr Troy Setter, believes consistency is the key to increasing investment:

---

42 Dr Jason West, *Submission1*, p. 9.

43 Select Harvests, *Submission 20*, p. 16.

44 Prime Super, *Submission 6*, p. 1.

45 Mr Paul Thomson, Managing Director, Select Harvests, *Committee Hansard*, 18 October 2018, Canberra, p. 1.

46 ISA, *Submission 10*, p. 7.

47 Investor Group on Climate Change, *Submission 13*, p. 5.

> That's some of the feedback we've had from both domestic investors and international investors…Consistent policy on foreign investment and consistent policy on tax, the environment, workplace health and safety and labour…as many of those things that can be consistent from government help balance out the inconsistencies of the season, market and commodity cycles.[48]

Committee comment

2.57 Stakeholders, including the regulators themselves, noted that there are no specific regulatory barriers for superannuation funds seeking to invest in agriculture in Australia. Equally evident, however, is the existence of other issues which create disincentives to increased investment by superannuation funds in the sector.

2.58 Most particularly, foreign investment rules may deter Australian managed funds with foreign co-investors from investing in local agriculture since they are considered in the same tax category as foreign investment firms.

2.59 The sector, in part because it is not well understood, has a reputation for being high-risk. The volatility of agriculture in general means that investors will need to be well informed and committed to longer term investments.

2.60 Another key concern for investors is the uncertainty and volatility of the sector as a whole.

2.61 Further practical barriers are discussed in the next chapter.

---

48 Mr Troy Setter, Chief Executive Officer, CPC, *Committee Hansard*, Canberra, 23 August 2018, p. 8.

3. Practical barriers

3.1 As previously identified, specific regulatory barriers to superannuation fund investment in agriculture are minimal. However, there are a number of other contributors to low superannuation investment:

- Agricultural performance and investment data either does not exist, or is not catered to investment profiling that superannuation fund managers either understand or will access in preference to market data that they are already familiar with.
- The simple nature of superannuation in Australia–funds must have access to quick-turnaround liquid assets that can be sold easily and still have easily understood high-yield returns.
- The few successful domestic investments that can be identified (such as FirstState Super's investment in Select Harvests) are due to a number of cumulative factors which cannot be easily replicated:
  - specialised agribusiness ventures where superannuation funds invest in land leaseback arrangements with proven return;
  - direct education of fund managers to understand the business being invested in; and
  - dedication of 'patient capital' within a fund's overall investment profile.
- Moves to improve agricultural data by government are not focussed toward financial or investment relevant detail.
- The promotion of the associated high-risk profile for agricultural investment is abundant throughout the market, even perpetuated by regulators such as ASIC.
- Extensive overseas investment from state-owned pension funds and other hedge fund style investments has led to a conception that domestic

regulation discourages investment, or is hampered by the 'cherry-picking' of the assets available by those overseas funds.
- Infrastructure quality and ownership to support the 'paddock to plate' supply chain is not confidently understood or seen as a priority for private or government investment.
- Certain policies regarding foreign investment discourage co-investment by domestic and foreign funds, increasing the risk profile that may encourage domestic superannuation investment.
- State land taxes and duties can discourage investment in agriculture, where annualised returns are a priority.

3.2 The Committee also acknowledges that a number of other issues hamper greater investment in the agricultural market. While these concerns are valid and undoubtedly impact their profitability and ability to harness market forces, the narrow scope of this inquiry regarding superannuation investment in agriculture did not allow for full consideration of these issues.

3.3 Regardless of this restriction, the Committee believes that the discussion in this chapter, and the associated recommendations, will help in improving investment in the sector in a broader sense, outside of that from just superannuation funds.

3.4 Given that there are no easily identifiable discrete regulatory barriers to superannuation investment, the Committee considers that the areas below are the best ways forward to help educate investors and stimulate growth and potential within the sector.

Asset and investment data opening

3.5 Multiple submitters and witnesses to the inquiry provided insight into the disparate and confused nature of data relevant to the agricultural sector, its financial performance and investment suitability.

3.6 While the current Australian Bureau of Agricultural and Resource Economics and Sciences (ABARES) survey and the resultant data is valuable, it is not specifically designed for use by potential investors.[1]

3.7 Investment managers and advisors require specific types of data in order to accurately assess the worth of investment options. In many cases, this

---

[1] Dr Jason West, *Submission 1*, p. 6; Prime Super, *Submission* 6, p. 5; Ms Jo-Anne Bloomfield, *Submission 14*, p. 7; Consolidated Pastoral Company (CPC), *Submission 15*, p. [15]; Laguna Bay Pastoral Company (LBPC), *Submission 17*, p. 3.

information is inadequate or simply non-existent for the agricultural sector. Compared to other investment categories, where such data is easily available, superannuation funds may find agriculture an unappealing, or hard to understand, sector in which to invest. This creates a barrier to further investment, since superannuation funds need to analyse longitudinal and cross-sectional performance and investment data to inform decisions.

3.8 Warakirri Asset Management described the existing level of agricultural data as 'not readily accessible or centralised' and noted that 'the available information is fragmented and difficult to access'.[2]

3.9 Examples of the types of data necessary, but difficult to source, include:

- financial data–markets, supply and demand trends and values; and
- physical data– information on soils, climate, river flows, ground water, dam levels.[3]

3.10 ABARES surveys, one of the main sources of information about the Australian agricultural sector, draw heavily on voluntary surveys, and therefore are considered problematic.[4] Additionally, the granularity of this and other data for meaningful investment analysis is problematic.[5]

3.11 Across the breadth of the evidence received, data accessibility, relevance or granularity, was the most recurring issue raised.[6]

3.12 The potential impact of data improvement was captured best by the National Farmers' Federation (NFF):

> NFF considers superannuation fund investment in Australian farm businesses could be increased if risks and likely returns could be more accurately calculated through the provision of better data. This includes more detailed and timely data on the physical (eg. Water availability, soils, climate impact) and financial (eg. market fluctuations, demand and supply data) factors

---

2 Warakirri Asset Management, *Submission 7*, p. [1].

3 Warakirri Asset Management, *Submission 7*, p. [1] and Ms Jo-Anne Bloomfield, *Submission 14*, p. 5.

4 Warakirri Asset Management, *Submission 7*, p. [2].

5 Dr Jason West, *Submission 1*, pp. 4 and 6.

6 Dr Jason West, *Submission 1*; Warakirri Asset Management, *Submission 7*; Ms Jo-Anne Bloomfield, *Submission 14*; CPC, *Submission 15*; National Farmers' Federation (NFF), *Submission 16*; LBPC, *Submission 17*; Agribusiness Australia, *Submission 18*; Department of Agriculture and Water Resources (DAWR), *Submission 19*; Select Harvests, *Submission 20*; Macquarie Group, *Submission 21*.

> impacting farm profitability. Australia has traditionally lacked relevant benchmark indexes which allow for performance to be measured and compared. Improved data enabling comparisons with other investments, such as long-term income and returns data, is also likely to increase superannuation fund consideration of agricultural assets as investment targets.[7]

3.13 A re-focussed and redirected ABARES and Australian Bureau of Statistics (ABS) collection of data would prove more useful in this regard.[8]

3.14 The current agricultural statistics system supported and produced by ABARES has served the sector well for many years. However, the aggregated data reported by ABARES, reflecting cross-sections of agriculture, does not attract much scrutiny from investors. The Department of Agriculture and Water Resources (DAWR) acknowledged that they receive requests for custom data sets from potential investors.[9] More robust investment-relevant data could cater for such requests automatically.

3.15 The lack of a national performance benchmark for agriculture means that fund managers, not just in superannuation, lack an investment target.[10]

3.16 More specifically, some stakeholders referenced stock exchange indexes in countries like the USA, for potential adaptation to the Australian market. However, it was clarified that these indexes are generally for agricultural commodities and futures[11] and given the lack of listed agriculture companies on Australian stock exchanges, were not applicable guides for adaptation.

3.17 Ultimately, the consensus appeared to be that a next-generation collaborative dataset needs to be developed to allow for all sectors to inform each other about investment opportunities and benefits.

3.18 Similarly, the contested nature of the potential investment returns from the agricultural sector, or specific producers (beef, dairy etc.), leads to confusion for potential investment.

---

7 NFF, *Submission 16*, p. 3.

8 Mr Richard Heath, Executive Director, Australian Farm Institute, *Committee Hansard*, 13 September 2018, Canberra, p. 4.

9 Mr David Galeano, Assistant Secretary, Farm Performance and Forestry Branch, Australian Bureau of Agricultural and Resource Economics and Sciences, DAWR, *Committee Hansard*, 28 June 2018, Canberra, p. 5.

10 Dr Jason West, *Submission 1*, pp. 4 & 7-9; NFF, *Submission 16*, p. 3; LBPC, *Submission 17.1*, p. [2].

11 DAWR, *Submission 19*, p. 2.

3.19 Prime Super tendered adjusted return figures for all agriculture industries income and capital return of 3.6 per cent for the period 2010–2016, whereas the long-term return promoted by Industry Super Australia was 9.7 per cent (1980–2016). Prime Super points out that this is artificially inflated by returns during the boom-period from 1980 until 1989.[12]

3.20 Whether the return figures are accurate or not, dispute shows that the lack of centrally aggregated data regarding performance and asset value leads to a perception of instability and vagary around return from the sector and its liquidity.

3.21 This perception is then challenged further by the lack of internal capacity within superannuation funds to understand the data they can access, or know where to get the support to get access to that information if they are so inclined.[13]

Government data transformation

3.22 The National Agricultural Statistics Review conducted in 2015 found that:

> …the existing agricultural data ecosystem relies heavily on a range of voluntary and compulsory surveys, undertaken by industry and government. A lack of coordination and collaboration between these collection bodies regularly results in respondents receiving multiple requests to provide similar information. The escalating cost of collection activities, rising compliance burden, and increasing frustration of survey respondents has resulted in a narrowing of survey coverage and falling response rates, reducing data quality and utility.[14]

3.23 Out of this review, a transformation strategy has been developed by the ABS and ABARES, known as the *Roadmap to Improve the Agricultural Statistics System* (the Roadmap).[15]

---

12 Prime Super, *Submission* 6, p. 4.

13 LBPC, *Submission 17*, p. 3.

14 DAWR, *Submission 19.1*, p. 1.

15 Australian Bureau of Statistics & Australian Bureau of Agricultural and Resource Economics and Sciences, *Roadmap to improve the agricultural statistics system*, November 2017, http://www.agriculture.gov.au/SiteCollectionDocuments/abares/ag-stats-roadmap.pdf, accessed 15 November 2018.

3.24 DAWR outlined the consultation process underway to capture the practical ways forward to achieving the goals of the Roadmap, identifying the following actions underway to progress the transformation:

- developing work programs and project proposals to undertake future transformation activities;
- identifying and assessing existing agricultural datasets, held by government and industry, for use in the production of statistics;
- engaging with industry groups to identify opportunities to collaborate on collection activities, develop common standards and share data;
- engaging with state and territory government agencies to improve data sharing protocols and mechanisms; and
- communicating with stakeholders about the Roadmap for improving agricultural statistics, transformation and statistics collection activities and seeking feedback on value propositions and stakeholder engagement strategies more broadly.[16]

3.25 Implementation of the Roadmap would lead to potential improvement in agricultural data for superannuation fund investment including:

- more detailed and timely data delivery to aid supply chain businesses (and by association, any investors in those businesses);
- insights for marketing strategies to enable promotion of Australian agriculture as a quality product;
- improved data for insurance purposes;
- better decision making and tools to increase efficiency and profitability; and
- better government use of disparate data sources, with improved policy development and investment and assistance programs.[17]

3.26 Most importantly, DAWR identifies that 'the availability of detailed, reliable and timely data will reduce uncertainty and encourage third-party investment'. Additionally, 'expenditure that improves the efficiency of the sector and opens links to new or under serviced markets will result in increased returns to farms and industry more broadly'.[18]

---

16 DAWR, *Submission 19.1*, p. 2.

17 DAWR, *Submission 19.1*, pp. 2-3.

18 DAWR, *Submission 19.1*, p. 2.

3.27 DAWR highlighted that even though a need for transformation of existing data has been identified and prioritised as part of the Roadmap, the collaboration required between government and industry is crucial:

> …the diversity of Australian agriculture has meant that past efforts have been uncoordinated and lacked the resources and impetus to address whole of system issues. To overcome this, a significant collaborative funding and resourcing effort will be required to support the development of a next generation data and knowledgebase for agriculture and related industries.[19]

Committee comment

3.28 Expansion of agricultural asset and investment data is crucial to the future success of larger-scale investment, superannuation or otherwise, in Australian agriculture.

3.29 However, the current state of government data (ABARES and ABS) and its relevance to commercial and industry interests was highlighted by its inadequacy, coupled with the lack of understanding of the sector more generally. The result is a disconnect between datasets and any potentially interested superannuation investment managers or other investment sources.

3.30 The Committee agrees that the Roadmap priorities identified are the next step in building the appropriate datasets and indexes that investors can use. However, the funding and resourcing issue requires a delicate approach to enable the Commonwealth to come up with a cooperative funding model with industry, which allows agility and change to be prioritised as industry data needs evolve.

Recommendation 1

3.31 The Committee recommends that the Australian Government prioritise implementing the *Roadmap to Improve the Agricultural Statistics System*. This should focus on achieving the identified outputs, including appropriate levels of detail and timeliness for agricultural data. The funding to allow for industry cooperative development and maintenance of a flexible future data environment should be part of these prioritised outcomes.

---

19 DAWR, *Submission 19.1*, p. 3.

Foreign investment and tax impacts

3.32 The level of investment in Australian agriculture by overseas pension funds and similar defined benefits retirement investment managers, especially from Europe, the USA and Canada, is significant.

3.33 According to ISA, global pension funds are now allocating more than 1 per cent of total assets to agriculture, internationally and here in Australia.[20]

3.34 This increased investment is seen as an indication that these funds see benefit in long-term investment in the sector.[21] However, the inherent difference between these funds and those in Australia alters the investment risk profile that they face when locking into longer-term investment in agriculture.

3.35 Stakeholders that run local investment management or agriculture operations for these overseas investors pointed out that this increased investment builds confidence in the market and shows that successful investment can lead to aggregated operations for local investment to build on.[22]

3.36 However, restrictions on foreign investment into agriculture, or requirements that are seen as burdensome, can impact on this direct investment stream and on those foreign funds co-investing with domestic investors, including superannuation funds.

3.37 These concerns fell mainly to the two issues outlined in Chapter 2:

- 30-day advertising requirement for agricultural acquisitions by foreign persons; and
- managed investment trust tax rates.

3.38 Changes to foreign investment and taxation rules can impact on a foreign pension fund, foreign investor, or their agent in Australia, easily acquiring assets, or encouraging investment (either solo or in partnership with local investors) due to tax impacts.

3.39 Additionally, submitters identified that land tax and stamp duty was a significant value offset consideration for the expected returns of an asset in

---

20 Industry Super Australia (ISA), *Submission 10*, p. 8.

21 Agribusiness Australia, *Submission 18*, p. 5.

22 LBPC, *Submission 17*; Agribusiness Australia, *Submission 18*, p. 5;

its first year, so could discourage any investment in either the short or long term.[23]

Committee comment

3.40 While the issues regarding foreign investment and tax impacts outlined above impact on the business models that certain submitters identified, they do not directly affect the direct topic of this inquiry, except if a local fund is planning to co-invest with an overseas fund.

3.41 The scale of foreign pension and equity fund investment in Australian agriculture is significant and increasing. For the market to mature in ways that encourage growth, modernisation, efficiency and aggregation of assets, and attract domestic investment, the contribution of overseas investors needs to be realistically acknowledged and supported. Investments that build capacity in the agricultural sector to grow and improve are important.

3.42 Any improvement in asset profile and management of agriculture as an attractive investment will lead to more investment in the sector itself, as well as the associated supply chain infrastructure.

3.43 Accordingly, there is merit in revisiting the rules regarding foreign investment advertising requirements and managed investment trust tax rates when applied to investment in agriculture by locally owned companies co-investing with foreign funds.

3.44 These considerations should not be a blanket exemption or a similar removal of these rules, but should consider whether these rules are having an unintended impact by creating barriers for domestic investors.

3.45 Additionally, the Australian Government should engage with states and territories through the Trade and Investment Ministers' Meeting and other appropriate Council of Australian Governments (COAG) councils to discuss the impact of stamp duty and land tax on agricultural asset investment.

3.46 Land taxes and stamp duties are state and territory issues, however, the potential for some offset relief for investors could encourage funds to look past that initial value offset. For that reason, the Australian Government should investigate the potential for taxation offsets at the Commonwealth level to alleviate the initial impact of stamp duty and land tax on select agriculture investments.

---

[23] BDO, *Submission 12*, p. 3; LBPC, *Submission 17.2*, p.2; Mr Ed Peter, Duxton Asset Management, *Committee Hansard*, 25 October 2018, Canberra, p. 3.

Recommendation 2

3.47 The Committee recommends that the Australian Government investigate the following to reduce the impact of foreign investment and taxation rules on agricultural investment:

- **Reviewing the rules regarding foreign investment advertising requirements and managed investment trust tax rates, and consider any unintended consequences when applied to investment in agriculture by companies investing on behalf of foreign interests or in tandem with domestic investors; and**

- **Engaging with state and territory governments regarding the impact of stamp duty and land tax on agricultural investment, while investigating options for taxation offset relief at the Commonwealth level in appropriate circumstances.**

Understanding, education and promotion of agricultural investment

3.48 The low level of understanding and education of investment managers in agriculture is a chief contributor to the low level of superannuation investment in the sector. The limited investment by general superannuation funds into agricultural assets creates a vicious circle amongst the investment manager cohort: limited understanding of the sector leads to limited investment in the sector, which in turn results in less interest in or knowledge of the sector.

3.49 This is complicated further by the publicly stated risk profiles associated with the sector, as discussed in the previous chapter.

3.50 The regulator, APRA, noted regarding the current lack of expertise:

> In many other asset classes you have a well-established grouping of investment managers who operate in this space. With agriculture that is not the case. There are not as many investment managers already operating in the sector. So there isn't the same what I would call ecosystem of investment

> managers operating in this space so it makes it a harder sector for them to get exposure to.[24]

3.51 LBPC agrees that agriculture 'is not widely covered in the asset consulting sector' and that this lack of knowledge is off-putting to interested investors.[25] This creates a further circular effect whereby the lack of investor demand does not warrant consultant investment in increasing their competency in the asset class.[26]

3.52 Warakirri Asset Management agrees that the existing low levels of investment by superannuation funds 'means there is a lack of knowledge and understanding of the agricultural sector within the investment community and its advisors'.[27]

3.53 The CPC also identified this as one of the primary barriers to greater superannuation fund investment in the sector.[28]

3.54 This lack of 'ecosystem' of investment managers within superannuation is not limited purely to agriculture either. The lack of understanding is underpinned by the fact that the majority of agriculture businesses in Australia are still privately owned, and it is rare for superannuation funds to invest directly into any private businesses.[29] Therefore, the 'ecosystem' of the sector itself (of majority family-owned or small-scale operations) does not lend itself to superannuation investment at the foundation level.

3.55 Additionally, the lack of understanding of the sector means that there is little analysis of agriculture as a potential investment within the finance sector. Mr Richard Heath of the Australian Farm Institute commented:

> I think it's true that if it's not in the first few pages of the *Financial Review*—the financial sector itself tends to drive a lot of this sort of stuff. You can have all the promotion coming from industry, but unless the financial sector internally

---

24 Mr Craig Roodt, Head of Investment Risk, Australian Prudential Regulation Authority (APRA), *Committee Hansard*, 21 June 2018, Canberra, p. 3.

25 LBPC, *Submission 17.1*, p. 2.

26 LBPC, *Submission 17.1*, p. 2.

27 Warakirri Asset Management, *Submission 7*, p. [3].

28 CPC, *Submission 15*, p. [3].

29 Prime Super, *Submission* 6, p. 11.

is talking about it, promoting it and realising that it has real value, I think it will be difficult.[30]

Committee comment

3.56 The Committee is acutely aware of the cumulative effect of all of these factors–the lack of data on agriculture as an investment, the nature of superannuation investment and prudential requirements of funds, the increasing element of foreign ownership of agricultural assets, and the impact of taxation and duties–has on investment prospects.

3.57 However, the lack of understanding in the superannuation industry, and the financial sector more generally, of the investment potential of agriculture is arguably the number one barrier to investment.

3.58 The decision-makers within investment management frameworks within superannuation funds do not understand the agriculture sector and there is currently no incentive for them to investigate further. No easily accessible performance data can be analysed for potential returns, and higher returns with easier liquidity can be accessed in equities, commercial real estate, and major infrastructure.

3.59 Accordingly, unless fund manager understanding and knowledge increases, superannuation investment in agriculture will remain at low levels.

3.60 To resolve this, there needs to be a coordinated and concerted education effort from both government and the agriculture sector to promote and inform potential investors about the reality of investing in agriculture. This could include information about the technology and techniques being used to counter failures of the past and the unknowns of climate and the market, as well as the potential returns that are being seen through smarter farming and consolidated investment in supply chain logistics.

3.61 This education program will need sector support and for the Australian Government to work with the COAG Industry and Skills and Transport and Infrastructure Councils in a coordinated effort to engage with individual producers and relevant agriculture peak bodies.

3.62 This effort can then be promoted to the superannuation and wider financial sector, both domestically and internationally through broader mechanisms

---

30 Mr Richard Heath, Executive Director, Australian Farm Institute, *Committee Hansard*, 13 September 2018, Canberra, p. 6.

that Austrade already has in place, both in the form of industry capability reporting[31], and investment promotion[32].

Recommendation 3

3.63 The Committee recommends that the Australian Government engage with Council of Australian Governments councils and agricultural peak bodies to develop an information and promotional platform on the benefits of investing in Australian agriculture.

This platform could then be promoted to the superannuation and investment sector, both domestically and internationally, to supplement the existing international promotion undertaken by Austrade.

Support for existing agribusiness to increase investment

3.64 Even without the barriers discussed above, superannuation funds would struggle to invest in Australian agriculture for the simple reason that there are not many suitable investment options within the sector.

3.65 Prime Super noted that funds do not typically invest in private businesses, because:

> …it is not possible to get a "real value" of the business from an equity or debt point of view. A "real value" is only evident at the time of sale, and in periods of stress on markets this value can be significantly different to the carrying value as there is no ready pool of buyers for the business. In contrast, the listed environment provides a ready buyer at the right price, therefore it is almost always possible to exit an investment.[33]

3.66 The rarity of agricultural businesses as listed companies on the stock exchange removes a potential direct investment avenue for superannuation, especially when funds are reluctant to invest in assets that cannot be liquidated easily.

---

31 Austrade, *Agribusiness – Industry Capability Reports*, https://www.austrade.gov.au/International/Buy/Australian-industry-capabilities/agribusiness, accessed 30 November 2018.

32 Austrade, *Invest in Australia – Agribusiness and Food*, https://www.austrade.gov.au/International/Invest/Opportunities/agribusiness-and-food, accessed 30 November 2018.

33 Prime Super, *Submission 6*, p. 3.

3.67 Prime Super identified the current limitations in Australian agriculture in this domain:

> Agriculture does not have an established path for the growth of a business through to an ultimate public listing (like through private equity funds). This is a key limitation for the sector, there are some listed agriculture companies, but not many. The limitations that exist include:
>
> - the need for large scale multi industry multi geographic exposures in one entity;
> - the high risk of climatic and economic impacts on the return; and
> - the volatility of those returns due to the above factors.[34]

3.68 Additionally, Mr Stephen Anthony, Chief Economist at ISA, argued that:

> …the listing question is one of ease of access to capital and desire to scale up quickly. So where operations are in family hands and they've been run quite profitably and that family business operation is still running quite effectively, it may be that that group chooses direct control over every aspect of the operation and that the private company form, or whatever arrangement they have in place, is more suitable to them. You want to list when you want to scale up your operations—to take it to that next level and then that next level again.[35]

3.69 Mr Craig Roodt of APRA also commented on how the sector's lack of a listed market hinders investment at the scale relevant to superannuation funds:

> …in the absence of a listed market, if we think of something like private equity, for example, one of the considerations, especially where a business is going through its formative stages, is, 'What's the eventual exit process?' Often that is by listing. With the absence of a diverse listed sector it is less clear. If someone wanted to pursue a roll-up strategy where they buy many small farms, amalgamate them and then achieve the scale benefits, one of the issues is the absence of an exit path. That one path of exit down the track to realise value simply isn't there. In my opinion for those two reasons it would serve as a discouragement.[36]

---

34 Prime Super, *Submission* 6, p. 6.

35 Mr Stephen Anthony, Chief Economist, ISA, *Committee Hansard*, 23 August 2018, Canberra, p. 4.

36 Mr Craig Roodt, Head of Investment Risk, APRA, *Committee Hansard,* 21 June 2018, Canberra, p. 6.

3.70 This narrow scope for either investment in current listed companies, or the ability for existing ventures to scale-up and list, is currently limiting the attractiveness of the agriculture sector for potential superannuation investment.

3.71 The investment covenants in subsection 52(6) of the *Superannuation Industry (Supervision) Act 1993* require trustees to analyse risk and likely return, diversification and liquidity of investments.[37] Without an increase in listed agricultural companies that can allow for superannuation funds to invest via the equity market, an increase in investment in line with these covenants is unlikely to eventuate.

3.72 However, without aggregation of assets, expansion or integration of traditional farming models and informed understanding of the requirement of Australian Stock Exchange listing rules,[38] most agricultural businesses will not be able to attract investment through these means.

3.73 Warakirri Asset Management pointed to the fragmented nature of the sector as a disincentive, since it 'takes time and patience to build a large-scale agricultural investment'.[39]

3.74 Mr Timothy McGavin of the LBPC also described scale as an issue of concern:

> We need scale. Our minimum investment size is around $30 million, otherwise we will just lose money, and our investors want us to keep focused on getting scale.[40]

3.75 The Investor Group on Climate Change recommended that there is a role for the government to work with superannuation funds and the agricultural sector to 'support the scaling up of institutional investment in the sector…[including through] the creation of suitable investment products'.[41]

3.76 The impact of overseas investors purchasing key agricultural assets within Australia also acts as a disincentive for domestic investment in the supply

---

37 Mr Stephen Glenfield, General Manager, Specialised Institutions Division, APRA, *Committee Hansard*, 21 June 2018, Canberra, p. 3.

38 ASX, *Listing requirements*, https://www.asx.com.au/listings/listing-with-asx/listing-requirements.htm, accessed 21 November 2018.

39 Warakirri Asset Management, *Submission 7*, p. [3].

40 Mr Timothy McGavin, LBPC, *Committee Hansard*, Canberra, 18 October 2018, p. 10.

41 Investor Group on Climate Change, *Submission 13*, p. 5.

chain, as overseas pension funds or 'state' investors are seen to be 'cherry picking' quality assets out of the overall supply chain.[42]

Committee comment

3.77 As a final area for focus to increase the potential for superannuation investment in agriculture, the Committee agrees with a number of stakeholders that aggregation of existing operations, integration of supply chain flows into existing businesses, and the consideration of public listing of larger companies on the stock exchange will lead to increased interest and investment.

3.78 To this end, there is merit in the creation of a 'toolkit' to support existing agriculture businesses in understanding the elements discussed in attracting investment, if that is their future desired business model.

3.79 The ideal factors that would contribute to increased domestic superannuation investment could ideally be captured by bringing together representatives of superannuation funds and the agriculture peak bodies to discuss improvements in practice and corporate structure to attract and boost investment.

3.80 This same forum could also be used to discuss data and performance measurement requirements, as identified earlier in this chapter.

Recommendation 4

3.81 The Committee recommends that an initial superannuation and agricultural industry investment working group be convened, facilitated by the Australian Government in the first instance, to identify and promote improved business process, structure and corporate nature, that would attract increased investment.

Concluding comments

3.82 As identified throughout this report, the cause of low superannuation investment in Australian agriculture is complex and contested. No one single barrier—regulatory or otherwise—is to blame.

3.83 The simple nature of superannuation fund investment logic and the requirement for funds to act in the best interests of their members, while also

42 ISA, *Submission 10*, p. 8.

meeting the liquidity and return profit basis for investment, puts agriculture and that part of the investment market at odds.

3.84 The Committee does not believe that the issues identified and the recommendations outlined in this report will solve this issue overnight. However, there is room for incremental improvement in data capture and analysis, unintended taxation impacts and sector understanding. The recommendations outlined in this report will hopefully lead to change in both the superannuation and financial sector and the agricultural sector, to bring about mutually-beneficial relationships going forward.

Mr Rick Wilson MP

Chair

A. Submissions

1 Dr Jason West

2 Australian Prudential Regulation Authority

3 Mr David Rees

4 Australian Ethical Investment Ltd

5 Mrs Veronica Terry

6 Prime Super

7 Warakirri Asset Management

8 *Confidential*

9 Australian Small Business and Family Enterprise Ombudsman

10 Industry Super Australia

11 Australian Securities and Investments Commission

12 BDO

13 Investment Group on Climate Change

14 Ms Jo-Anne Bloomfield

15 Consolidated Pastoral Company

16 National Farmers' Federation

17 Laguna Bay Pastoral Company

- 17.1 Supplementary to submission 17
- 17.2 Supplementary to submission 17

18 Agribusiness Australia

19 Department of Agriculture and Water Resources

- 19.1 Supplementary to submission 19

20 Select Harvests

21 Macquarie Group

B. Public Hearings

Thursday, 21 June 2018—Canberra

Australian Securities and Investments Commission

- Ms Jane Eccleston, Senior Executive Leader
  Investment Managers and Superannuation

Australian Prudential Regulation Authority

- Mr Craig Roodt, Head of Investment Risk
- Mr Stephen Glenfield, General Manager
  Specialised Institutions Division

Thursday, 28 June 2018—Canberra

Department of Agriculture and Water Resources

- Ms Joann Wilkie, First Assistant Secretary
  Agriculture Policy Division
- Mr Andrew McDonald, Assistant Secretary
  Food, Investment and Energy Branch, Agricultural Policy Division
- Mr Michael Ryan, Director
  Agriculture Investment, Agriculture Policy Division
- Mr David Galeano, Assistant Secretary
  Farm Performance and Forestry Branch, Australian Bureau of Agriculture and Resources Economics and Sciences

Thursday, 16 August 2018—Canberra

Prime Super

- Mr Lachlan Baird, Chief Executive Officer
- Mr Duncan Fraser, Director

Thursday, 23 August 2018—Canberra

Industry Super Australia

- Mr Stephen Anthony, Chief Economist

Consolidated Pastoral Company

- Mr Troy Setter, Chief Executive Officer
- Mr Jack Lake, Adviser

Thursday, 13 September 2018—Canberra

Australian Farm Institute

- Mr Richard Heath, Executive Director

National Farmers' Federation

- Mr Tony Mahar, Chief Executive Officer
- Ms Prudence Gordon, General Manager Trade and Economics

Thursday, 20 September 2018—Canberra

Dr Jason West

Agribusiness Australia

- Mr Tim Burrow, Chief Executive Officer

Thursday, 18 October 2018—Canberra

Select Harvests

- Mr Paul Thompson, Managing Director

Laguna Bay Pastoral Company

- Mr Timothy McGavin, Chief Executive Officer

Thursday, 25 October 2018—Canberra

Duxton Asset Management

- Mr Ed Peter, Chairman

Southern Aurora Markets

- Mr Garry Booth, Partner
- Mr Connor Fitzgerald, Partner, Meet and Livestock

Bridgecape Commodities

- Mr Scott Briggs, Managing Director