Australian Food and Agribusiness 2017

Key themes



KEY OPPORTUNITIES



2017 is a year of opportunity and challenge for the Australian food and agribusiness sector. We anticipate an uplift in food and agribusiness M&A activity, and have identified 6 key themes that are likely to play out in the remainder of 2017.

Opportunities and Challenges – 6 key themes

Three key opportunities

1. Global demand and population growth: Rising incomes of developing nations such as China and India, coupled with evolving diets, is increasingly driving demand for high value, trusted quality foods and more diverse products. In Asia alone, with over 1 billion people expected to move out of poverty as average incomes rise, beef consumption is predicted to rise 120%, while dairy consumption will double by 2050. So how can Australia capitalise on these opportunities?

Today, with a national population of less than 25 million people, Australian farms produce enough food to feed 80 million people, resulting in plenty of opportunity to export produce overseas. In addition, our Southern Hemisphere location means Australia's seasons are complementary to Northern Hemisphere countries and can produce and export foods unavailable in those domestic markets in their off-season.

As a result, Australia is perfectly placed as a quality producer and efficient exporter of goods into these emerging nations.

However, in order to take advantage of its reputation as the world's most reliable supplier of safe premium food and agricultural products, Australia must continue to develop ways in which it can remain competitive on a global stage and create efficient supply chains for its food and agricultural exports.

Currently, the emerging middle class in Asia accounts for:



with 22% of sales to China, 9.4% to Japan, 7.3% to Indonesia, 5.8% to Korea,
3% to Malaysia and 2.8% to Singapore, and 10% to other Asian countries.

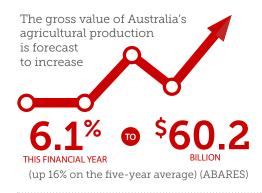
Growth areas: Australian exports

Domestically, the Australian Department of Agriculture, Agricultural Commodities recently published its forecasts for the value of Australian exports, forecasting increased growth for sugar, wheat and canola by up to 23%, 25% and 33% respectively in the next year.

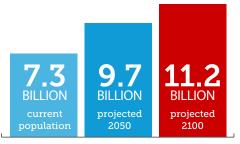
Interestingly, Australian beef exports are forecast to decrease by 17% in the next year but beef exports still constitute the highest in total value of Australian agricultural exports - at around \$6.9 billion in exports.

Australia has approximately 3% of the world's cattle and buffalo inventory (with India, Brazil and China taking the top 3 places), and it produces 4% of the world's beef supply.

Cattle farmers are hopeful that the projections will improve with a new deal agreed this month between Indonesia and Australia to increase the import cattle weight limit into Indonesia from 350 to 450 kilograms. In the dairy sector, exports to China of infant milk formula increased by 42% last year, with butter increasing by 53%.



More people to feed: A United Nations report in 2015 estimates:



with **2.4** billion more people on earth, **60** to **70%** more food will be required than what is currently available.

2. Partnering with foreign and institutional investment:

The Australian Government's farm register, compiled by the Australian Tax Office, shows 13.6% of Australia's farmland is foreignowned, with UK-based investors holding 27.5 million hectares or almost 53% of that. The United States is the second highest country on the register, followed by the Netherlands with almost 3 million hectares. Singapore with almost 2 million hectares, and China with 1.5 million hectares — or less than 0.5 per cent of total agricultural land across the country. The Philippines, Switzerland, Jersey, Indonesia and Japan round out the top 10 foreign buyers. Deputy Prime Minister and Minister for Agriculture and Water Resources, Barnaby Joyce, has said that this register is the first comprehensive data on the actual level of foreign ownership of agricultural land in Australia, and that

it confirms common perception that the level of foreign ownership is increasing. In addition, Australian Treasurer Scott Morrison has said that foreign institutional investment is integral to Australia's economy as it contributes to growth, productivity and creates jobs.

3. AgTech:

By 2050, the world's food suppliers will need to produce 70% more food to feed an increasingly populated world. One way we can continue to unlock productivity growth in Australia is through new technologies, more innovative management solutions and capital investment. Currently, investment in digital technology for agriculture in Australia trails investment in digital technology for all other sectors. Last year, it was reported that less than \$5 million was invested in Australian agtech deals, while globally the figure was \$4 billion (ABC). However, the Australian Government is supportive of growth and development in this space, with funding of around \$250 million per year allocated to rural research and development corporations. In addition, the Australian Government is providing a \$190.5 million grant over eight years from 2014 to 2022 for a competitive program to deliver new technology and applied research, with an emphasis on making the results accessible to Australia's primary producers. Ag-tech is an important part of Australian agribusiness' direction in the future, whether through apps, sensors, GPS tracking devices or drones. These technologies will assist producers to maximise production, export potential and our natural competitive advantages, whilst securing their supply chains.

Case study: New Hope Group's investments

China's biggest private agribusiness group, New Hope Group Co., Ltd (New Hope Group), announced that it plans to invest \$1 billion by 2020 in Australian agriculture.

New Hope Group already has a presence in Australia, having acquired a controlling stake in Queensland beef exporter Kilcoy Pastoral Company in 2013 and further investing with two of the largest dairy farming families in Australia, Moxeys and Perichs, in 2015.

Chairman Liu Yonghao, states that New Hope Group will continue with the co-investment model to invest in, and partner with, Australian businesses, which will allow small farming families with expertise in Australian farming to maintain the core farming business in Australia, but at the same time obtain foreign capital investment to expand the businesses.

Chairman Liu has further demonstrated his deep commitment to the bilateral relationship between the Chinese and Australian food and agriculture sectors by playing a key role together with Andrew Forrest AO, in the establishment of the Australia Sino One Hundred Year Agricultural and Food Safety Partnership (ASA100).

The ASA100 is an authoritative bilateral initiative and brings together influential participants, including the New Hope Group, in the Chinese and Australian food and agriculture sectors to collaborate in promoting Australia as a reliable and competitive premium food supplier to the China market. MinterEllison is proud to be a member of ASA100.

Examples of technologies developed to enhance efficiency and production:



Salinity sensors connected to an app to early detect oyster contamination



Beef cattle "tattooing" to monitor cattle health



Lamb tagging to reduce losses in heard numbers



Use of drones for targeted crop spraying

Three key challenges

1. Foreign investment regulation:

In recent years, one of the more contentious aspects of doing business in Australia is the Federal Government's tightening approach to foreign investment approval. The government has lowered the monetary thresholds pertaining to agricultural land and agribusiness acquisitions. The FIRB regime was significantly reformed on 1 December 2015 and the Australian Treasurer has blocked a number of high-profile transactions from proceeding, including the first two attempts to sell the Kidman Cattle farm (the third attempt, to Australian Outback Beef, on which MinterEllison acted, was ultimately successful in obtaining FIRB clearance and completing).

As a result, navigating the FIRB process involves increased complexity, higher cost and additional risk for foreign investors. An early engagement strategy is critical to minimise:

- the time required to engage with FIRB and, particularly, the time required to receive a decision from FIRB:
- the costs and efforts of all parties involved;
- the potential conditionality on any clearance by FIRB: and
- associated political risks.

2. Food safety regulation:

Australian food and agricultural products are increasingly being exported to consumers prepared to pay a premium for safe, secure food from a pristine provenance. Accordingly, food safety/purity is particularly important to the food and agribusiness sector and is the fundamental value proposition for Australian exporters. Establishing and protecting a food purity reputation is a considerable challenge and opportunity for companies in Australia to produce high quality foods that are compliant with changing rules relating to imports

and exports. For example, China's demand for Australian infant formula has risen dramatically in recent years due to concerns of contamination with domestic brands in China. However, the Australian Department of Agriculture has been investigating infant formula exporters to ensure that dairy products made in Australia satisfy all legislative requirements before being exported. Food purity and safety will remain a high priority, and it will be critical for directors of Australian companies to be aware of the issues and their directors' duties and obligations, and be compliant with any health and safety authority regulations.

Any disruption in our food supply chain will cause damage to food security. In Australia, we have a lengthy food supply chain (especially in relation to international, long haul shipments into Australia) and the aim is to shorten the supply chain so there are more direct routes for just in time delivery of food. Further, any damage to Australian food security has the potential to undermine the reputation of those foreign companies and organisations which facilitate the transport and sale of Australian food and agricultural products and which provide the supply chain capacity for Australian exporters.

3. Non-tariff barriers:

Exporters of Australian food and agricultural producers continue to face numerous market access restrictions in overseas markets. One of the main areas of concern is trade impediments caused by technical specifications, product standards and other administrative rules (non-tariff barriers). The effect of the non-tariff barriers can include lower volumes. of trade and/or reduced product returns from higher supply costs or lower market prices.

The effects of non-tariff measures ultimately flow through as lower returns for Australian food and agricultural producers. The Australian red meat and dairy export industries have estimated the industry impact of non-tariff barriers at around \$1.25 billion and \$1.57 billion respectively. There is an increasing push by the Australian food and agriculture sector for the implementation of strategies to reduce non-tariff barriers in order to further enhance the export momentum generated by Australia's recent Free Trade Agreements.

MinterEllison's Food and Agribusiness team has extensive experience in this sector and is well placed to assist you in relation to any queries you may have or matters you would like assistance with in this area.







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