Department of Agriculture and Water Resources

Committee inquiry: Superannuation investment in agriculture
Date Held: Thursday 28 June 2018

Questions Taken on Notice

Question 1

Mr RAMSEY: What does 'less than 20 per cent' mean? Is it five per cent or fifteen?

Mr McDonald: I'd have to check that and come back, on notice, with a precise figure. But the point here is that, in other fields, in other sectors, you've got companies trading on the stock exchange. There are very few agricultural businesses on the stock exchange. Say you buy shares in a publicly listed company on the stock exchange; if you buy them today you can sell them tomorrow. You can't do that with a typical agricultural farm.

Answer:
As indicated in the below table, in 2016-17 farms operating as companies and trusts and complex business structures makeup 19% of farm businesses across the agricultural industries ABARES currently surveys.

Operating business entity type for broadacre, dairy and vegetable farms and Murray Darling Basin Irrigation farms, 2016-17

11-July-2018

Per cent of farm businesses:		
Sole trader	%	16
Partnership	%	65
Company	%	9
Trusts and other complex business structures	%	10
Population of farm businesses	no.	76 600

Source: ABARES Australian Agricultural and Grazing Industries Survey, Australian Dairy Industry Survey, Australian Vegetable Industry Survey and survey of Irrigators in the Murray Darling Basin.

Question 2

CHAIR: In North America, there is a much more mature investment environment in agriculture. They have a stock exchange index, which is the ultimate measure. Are you aware of what the American Department of Agriculture provides in terms of data and information?
Mr Galeano: Only very shallowly. I know that they do their own surveys and they collect a whole lot of data but I haven't had much experience myself with the details of that. Other people back at ABARES would know more about it.
CHAIR: Could we ask you to provide a little bit of information on what the North American dataset looks like? We might be able to pick some ideas out of that.
Mr Galeano: Yes.

Answer:

Agriculture specific indexes on United States stock exchanges are generally for agricultural commodities and agriculture commodity futures and do not specifically report performance of stocks that invest in businesses operating farms.

The United States Department of Agriculture's National Agricultural Statistics Service (NASS) conducts the United States Agricultural Census every five years and the annual Agricultural Resource Management Survey (ARMS). Both collections record detailed physical and financial performance data for US farms (all self-reported data). Information from these collections are analysed and published, often only in aggregate form, by the USDA's Economic Research Service (ERS). An example of this analysis is available at: https://www.ers.usda.gov/webdocs/publications/87524/err-245.pdf?v=43153

In addition, the NASS runs the annual June Area Survey and the annual Cash Rents Survey that collects data on land values (these are all farmers' estimates of market value) and rental rates paid. Data sets from each annual collection are available online. An example of the summary results of this collection is available at: https://www.nass.usda.gov/Publications/Highlights/2017_LandValues_CashRents/2017LandValuesCashRents_Highlights.pdf

Returns from investment in farms are from two sources: profit generated by operation of the farm business captured in the *rate of return to capital excluding capital appreciation*; and, capital appreciation captured in the *rate of return including capital appreciation*. Farm level financial performance data are required to calculate farm profitability and capital appreciation if these data are to be published in disaggregated form. In the US case, the financial data are sourced from the Agricultural Census and ARMS. Capital appreciation, at least increase in land values, is sourced from the annual June Area Survey.

<u>Question 3</u>

Mr KEOGH: I think this is a really interesting point. Is there generally an issue across the sector around capacity of farm—I'll use the term loosely—managers, who are often farm owners, because of the inherited and traditional mechanisms of operating these businesses, in that business acumen sense, to be able to operate the business in ways that allow for that access to capital or to create investment opportunity?

Mr McDonald: It depends what their business objectives are. It depends if they're seeking this or not, as farm operators.

Ms Wilkie: There is probably data we can pull out that gives a general indication of trends or averages on that sort of thing.

Answer:
Access to capital for investment is critical for the Australian agriculture sector to remain internationally competitive and to take advantage of future growth opportunities. Farmers need to consider multiple financial capital options, including investment finance, external equity funding and foreign investment.

Some structures for owning and operating farms have the potential to help attract external investment, however there is no universal 'right' structure. Ultimately, the most suitable ownership structure is a function of the circumstances, priorities and plans of the owner. Relevant circumstances include age, attitude to risk and complexity, mix of assets and liabilities and sources and level of income (Brown 2004). The cost of changing ownership structures is often significant, and it is important to choose a structure that will suit for a long period of time (subject to regular review) (Grains Research and Development Corporation, 2014).

A report to the Western Australian Government also noted that, to attract external equity sources, such as domestic superannuation funds, farm businesses should:

- adopt best practice business management procedures already employed in the corporate sector, to encourage external funders to engage with agriculture; and
- embrace joint venture or equity partnership business structures to expand the pool of investors.

There is a distinct and growing gap between high and low performing farms in Australia (Agrifood Skills Australia, 2015). Higher performing farms produced more than half of the agriculture sector's output with the top 25 per cent of farms accounting for 54 per cent of the broadacre value of output, for the three years ending 2011–12 (Department of Agriculture and Water Resources, 2014). They also recorded average rates of return of 5.9 per cent a year – much higher than the average annual rate of return of 1.1 per cent a year for all broadacre farms over the three years ending 2011–12; and accounted for 65 per cent of net capital additions

<u>Question 3</u> – (continued)

compared with 8 per cent for the bottom 25 per cent of farms – over the three years ending 2011–12 (Agrifood Skills Australia, 2015).

Lifting performance, particularly for the middle 50 per cent of farms, towards the levels achieved by the top 25 per cent will be critical to attracting the capital and labour required to meet the market opportunities ahead (Department of Agriculture and Water Resources, 2014). Key elements of the profitability challenge are realising better access to markets, adoption of the latest R&D, education, connected infrastructure, finance, less regulation, reduced costs as well as open and transparent competition (Department of Agriculture and Water Resources, 2014).

The table at Attachment A illustrates the diversity of farming enterprises, and how they can be segmented according to multiple dimensions such as size, financial performance, ownership structure and farm aspirations. It highlights the tendency for specific ownership structures to align with specific farm business circumstances and goals.

Bibliography

Agrifood Skills Australia . (2015). *Bold ideas | Engaging people | Influential, enduring solutions.* Canberra: Report prepared by the Nous Group.

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Question 3 – (continued)

Attachment A

Agrifood Skills Australia . (2015). *Bold ideas | Engaging people | Influential, enduring solutions.* Canberra: Report prepared by the Nous Group.

AgriFood Skills Australia
Contemporary business strategies and learning models in the agrifood industry | 3 March 2015

Table 2: Farm type segments

	Amenity	Static	Aspirational	Productive	Corporate
Description	Smaller farms typically located in peri-urban areas that are operated part-time for life style reasons.	Medium farms with no or moderate growth ambitions that may range from financially stressed to comfortable and content.	Aspirational family farmers making adequate returns on capital that are looking to grow their farm income.	Sophisticated large scale family farms run by professional farmers.	Large scale farms with external (non-family) equity and/or a board of management with external directors.
Avg. turnover*	$40,000	$80,000	$150,000	$550,000	$4,400,000
Ownership structures	• Sole proprietor • Partnerships	• Family farm • Family farm partnerships	• Family farm • Family farm partnerships • Multigenerational family partnerships • Leasing • Share farming	• Family farms • Multigenerational family partnerships • Multigenerational company and trust structures • Leasing • Share farming	• External domestic or foreign ownership • Listed venture • Managed investment scheme (MIS) • Family equity partnership
Funding sources	• Off-farm income	• Off-farm income	• Banks • Pastoral finance companies	• Banks • Pastoral finance companies	• Direct equity investor • superannuation or private equity fund) • External owner • Banks • Pastoral finance companies
Proportion of total enterprises*	32%	20%	20%	25%	2%
Predominant areas of involvement	Beef/sheep	Beef/sheep, cropping	Cropping, beef/sheep, dairy, horticulture	Cropping, beef/sheep, dairy, horticulture, forestry	Dairy, horticulture, mixed farming, beef/sheep, cropping

** Estimates only*

Adapted from: (McKinna, 2010; Wilkinson, et al., 2011; SPP, 2008)