



With the Agricultural Competitiveness White Paper, the Australian Government has sought to set the policy environment to deliver a more competitive, sustainable and profitable agricultural sector, and realise the sector's potential.

The Government recognises throughout the White Paper that central to ensuring that the industry can deliver on its potential is the promotion and attraction of productive investment, including foreign investment, combined with securing water supply, improving infrastructure and utilising technological advances to boost rural productivity. As we identified in our 2014 publication, [A greater yield: Attracting investment into Australian agribusiness](#), this will require aligning Government initiatives with investor priorities.

Against that measure, we look at the White Paper's key initiatives in four important areas.

1. Improving farm gate returns

- > Attracting investment into family farms will require agriculture to make itself viable as an alternative asset.
- > Boosting Australian Competition and Consumer Commission (**ACCC**) engagement with the agriculture sector through the appointment of an agriculture commissioner within the ACCC and strengthening of competition and fair trading investigations and enforcement actions.
- > \$13.8 million for a two-year pilot program to provide farmers with knowledge and materials on cooperatives and innovative business models.
- > Reforms to live export and environmental regulation.

OUR OBSERVATIONS



- The White Paper suggests domestic superannuation funds as a source of investment in agriculture and cites that currently only 0.3 per cent of MySuper products are invested in agriculture. However, we think that there will be a slow uptake from domestic superannuation funds for a variety of reasons. For example, portability rules in Australia generally mean that investment in agriculture by domestic superannuation funds is constrained by their liquidity requirements and the appropriateness of the investment horizon of agriculture as an asset class. Unless liquid investment products can be developed, we think that the bulk of the investment that is needed will come from foreign sources because there is greater variety in investment appetite and diversity in investment mandates – from pension fund investment through to private equity and family offices.
- The appointment of an agriculture commissioner within the ACCC should bring sector-specific expertise to the regulator. Although the immediate focus appears to be on fair trading investigation and enforcement actions, there may in time be greater scrutiny of infrastructure access regulation and merger clearances.
- The White Paper flags cooperative structures for farmers to help them better engage through the supply chain. This is an interesting initiative as cooperative structures have largely fallen out of favour in recent times as a result of the model's capital constraints. However, there are obvious benefits to the model, including, as the White Paper suggests, assisting farmers overcome competitive imbalances, and the model may be successful if applied to less capital intensive activities. A further extension of this initiative could see farmer cooperatives vertically integrated with downstream sections of the supply chain, particularly at infrastructure bottlenecks such as transport infrastructure. In this regard, innovative financing structures involving, for instance, hybrid instruments, may assist in addressing capital constraints.
- The White Paper signals welcome regulatory reforms. The two most immediate reforms for agribusiness are the changes to live export regulation and environmental regulation. The reforms include a risk-based approach to ESCAS auditing a streamlining of environmental assessment and approval processes. This should see a reduction in business operating costs across agribusiness sub-sectors.



2. Building water infrastructure

- > \$500 million to develop water infrastructure across the nation.
- > Establishment of the National Water Infrastructure Development Fund focused on water resource assessments, feasibility assessments and business cases to inform future water infrastructure investment decisions.
- > \$450 million to invest in the construction of 'investment ready projects' in partnership with industry and state and territory governments.
- > Farmers in drought will be allowed to access their Farm Management and Deposit Scheme without losing their tax concessions.

OUR OBSERVATIONS

- The White Paper identifies collaborative investment involving government and the private sector as the preferred model to deliver water infrastructure projects, including dams. Funding allocation will be merit-based, with consideration given to how proposed projects relate to the states' long-term strategic plans.
- The White Paper confirms that the Government is considering improvements to the regulatory framework to provide more certainty and cut red tape for irrigation businesses, including providing the Commonwealth Environmental Water Holder with greater flexibility in using the revenue from water trades and using the revenue from selling Commonwealth environmental water to fund activities that maximise environmental objectives. This is in addition to the ACCC's review of Water Charge Rules due at the end of the year. It is likely the reviews of the *Water Act 2007* and Murray Darling Basin Plan will be extended in order to collect further data about the implementation of the Basin Plan.

3. Research Development & Extension (RD&E) and agricultural technology

- > \$100 million to extend the Rural R&D For Profit program to 2022. The program provides cash or cash plus an in-kind contribution to support research performed by a rural research and development corporation in partnership with researchers, research agencies, funding bodies, businesses, producer groups and not-for-profit organisations to improve farm-gate productivity and profitability.
- > Rural RD&E priorities to focus on advanced technology, particularly for the food and fibre supply chains, robotics, digitisation, big data, genetics and precision agriculture; biosecurity surveillance and analysis; soil and water management; flexible delivery of extension services to translate research from the lab to the farm.
- > A new approach for the Australian Pesticides and Veterinary Medicines Authority to streamline the approval process and therefore access to agricultural and veterinary chemicals.

OUR OBSERVATIONS



- Federal research funding for 'blue sky' research in the sector has decreased in recent years. The R&D funding announced in the White Paper comes after major rural R&D funding cuts to CSIRO and the CRC programme as part of the 2014 federal budget.
- Additional funding for the rural R&D For Profit scheme signals a focus on 'applied research' that has the potential to provide recognisable improvements in productivity and profitability in the short term. There are opportunities here for businesses to partner with a research organisation to obtain federal funding, access the R&D Tax credit and pursue market exclusivity through securing intellectual property rights for innovations generated in Australia.
- Globally, 'smart agriculture' is becoming more relevant and closer to widespread implementation particularly in the areas of robotics and utilisation of big data. The White Paper reflects this in its identification of advanced technology as a key RD&E priority. This, combined with the additional funding commitment to the rural R&D For Profit scheme, provides opportunities for innovative business to develop and deploy new agricultural technologies in Australia.
- The focus on private delivery of extension services provides an opportunity for the private sector to provide useful and practical information on their R&D outcomes in a systematic, participatory manner to improve productivity.
- A streamlined approach to regulatory approval for the release of agricultural and veterinary chemicals provides the opportunity to release a greater range of products and for cost reductions in the release of new products.

4. Access to premium markets

- > \$30.8 million to break down technical barriers to trade by appointing five new agriculture counsellors in key markets.
- > Biosecurity will be improved with \$200 million being spent to better target critical risks.
- > \$12.4 million will be spent to verify produce integrity.

OUR OBSERVATIONS



- The initiatives around removing technical trade barriers, including the reduction of excessive quarantine and food safety requirements through government-to-government negotiation, are designed to increase security in existing markets and provide access to new markets. However, it remains to be seen how these initiatives will interact with the Free Trade Agreements recently concluded with key export markets.
- The promised \$200 million boost to biosecurity surveillance and analysis internationally and domestically provides a global perspective and approach to biosecurity in Australia rather than one focused on individual pests and diseases. The impact of the surveillance and analysis system on the flow of products through distribution networks remains to be seen and will not be apparent until the detail of how the surveillance and analysis will be implemented.
- An effective traceability system minimises trade disruption and managing potential public health risks if contamination of a product occurs. Traceability is critical to maintaining Australia's reputation for producing clean food. Moreover, improved traceability, particularly through the use of agricultural technology, is an opportunity for farmers to secure farm gate premiums.

Meet the team

Please feel free to contact a member of the team to discuss

Investment



Jeremy Low
Partner, Sydney
T +61 2 9230 4041
Jeremy.Low@allens.com.au



Amit Jois
Senior Associate, Sydney
T +61 2 9230 4236
Amit.Jois@allens.com.au



Carolyn Oddie
Partner, Sydney
T +61 2 9230 4203
Carolyn.Oddie@allens.com.au



John Hedge
Partner, Brisbane
T +61 7 3334 3171
John.Hedge@allens.com.au

Competition, access and merger control

Finance



Renee Boundy
Partner, Sydney
T +61 2 9230 4921
Renee.Boundy@allens.com.au

R&D



Linda Govenlock
Partner, Sydney
T +61 2 9230 5163
Linda.Govenlock@allens.com.au



Tony Shaw
Senior Associate, Sydney
T +61 2 9230 4622
Tony.Shaw@allens.com.au

Water



Bill McCredie
Partner, Brisbane
T +61 7 3334 3049
Bill.McCredie@allens.com.au

Funds Management



Marc Kemp
Partner, Sydney
T +61 2 9230 4991
Marc.Kemp@allens.com.au