Knocking back Chinese Kidman bid a lost opportunity to build on key relationships

There are few reasons to limit foreign ownership

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We have a beef with former Australian Competition & Consumer Commission chair Graeme Samuel's claim in Tuesday's *The Australian* that the federal Treasurer's April rejection of the $371 million bid for S. Kidman & Co (owner of the Kidman cattle stations) by a consortium 80 per cent-backed by private Chinese businesses "didn't hurt us".

We disagree. Not only did it hurt us, it threw away an important opportunity to strengthen relationships with key players for our future benefit.

Australia has benefited greatly from foreign direct investment (FDI) in many sectors of our economy. Annual FDI inflows have varied between $30 billion and $60bn over the past decade. The stock of direct investment is more than $730bn.

FDI helps to build Australia's productive capacity. It grows our stock of capital and often brings with it new technology, thereby boosting national productivity and the incomes of Australian labour. Indeed, research shows foreign direct investors tend to pay higher wages.

Foreign direct investors have long time horizons. The Kidman bid was probably motivated by a desire to secure access to land and other resources to support the supply of food — particularly beef, for which demand is growing rapidly in China. Much of the cattle stations' production would probably have been exported to China.

Rejecting the bid put at risk potentially important strategic market access benefits for Australia. China generally imposes 12-25 per cent tariffs on beef imports. These will be removed under the recent China-Australia free-trade agreement — but only slowly (over nine years). Furthermore, China has retained the right to restrict beef imports if they get too big. The trigger is now 170,000 tonnes a year, reportedly 10 per cent above the peak level of Australia's past annual beef exports to China, and will grow only slowly over time. As our beef exports to China hit 161,000 tonnes in 2013-14, we're in danger of hitting the trigger soon.

Speeding up tariff reductions and lifting the trigger would be in Australia's interests. Having friends within the relevant sectors in China would help achieve these outcomes, enabling more favourable implementation of the FTA and the negotiation of more and faster liberalisation.

Foreign investors wishing to export back to their home countries have strong incentives to help Australia achieve these outcomes.

Signing FTAs is good, but having local allies in FTA partner countries with incentives and capabilities to help drive forward FTA implementation and further liberalisation also matters.

The Kidman bid's rejection has thrown away the opportunity to win important allies in China for the Australian beef sector, other export sectors and the Australian government — and with it, the opportunity to gain greater and faster access to what is our most important export market by far.

As FDI in beef from China can substantially benefit Australia, why did the Treasurer reject the Kidman bid? He claimed it was "contrary to the national interest", primarily because selling 2.5 per cent of Australia's agricultural land in one lot limited opportunities for Australian investors.

But $371m is not an insurmountable sum for Australian investors. Only a week after the Treasurer knocked back the bid, state-owned Australian investment company QIC announced it would buy 80 per cent of local cattle company NAPCo in a deal worth $312m. That makes NAPCo worth $390m — more than Kidman. This is unsurprising, as NAPCo holds more productive land. NAPCo runs about the same number of cattle as S. Kidman on about 45 per cent less land.

The Treasurer would prefer the Kidman holdings to be broken up and sold separately. But the Kidman cattle stations complement each other. They allow cattle to move from breeding through fattening to market. Furthermore, low-productivity land needs to be run at high scale to be economic. Complementary synergies and scale generate real productivity benefits. Kidman chose to sell the properties together because they're more valuable that way.

If its shareholders did what the Treasurer wants, Australia would lose those real productivity benefits and shareholders would lose the capitalised value of those benefits in lower sale proceeds.

If (despite the logic) ownership remains an issue, an alternative option would be to split ownership from operations. An Australian investor/s could own the land, while a foreign-owned operating company could manage the cattle and their sale, including exports. At least this would avoid throwing away real productivity benefits.

Are there other reasons to constrain foreign ownership? Not really. Some may be concerned foreign investors might have different motivations to local investors and therefore may behave differently. But all Kidman consortium members are commercially focused.

ASX-listed Australian Rural

Capital has a 20 per cent stake. The Chinese members are businesses associated with Chinese billionaire Jiang Zhaobai, including a large Shanghai-listed pasture farming company.

Zero state ownership is involved (unlike the QIC purchase).

Some may be concerned that foreign investors' commercial actions may have social — for instance, environmental — impacts.

But all investors are subject to the same laws and regulatory systems that deal with those issues.

Some may perceive food security risks, such as Australians being denied access to beef produced on foreign-owned land. But Australia only consumes 30 per cent of the beef it produces, and most of our beef production is from Australian-owned land. In any case, FDI-supported trade improves food security by promoting two-way trade in food and investments in food production research and technology.

It is difficult to find any good reasons to control FDI. Any potential concerns — whether real or imaginary — are best dealt with through direct measures, rather than blocking FDI, which means losing valuable opportunities for all of us.

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