



THE GREAT DEBATE – foreign ownership of our rural land

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Clare Fraser

EXECUTIVE SUMMARY

The great debate refers to the on-going angst New Zealanders are feeling over foreign ownership of some of our most prized possessions, rural land. This contentious issue requires an honest view about what foreign ownership of our pastoral land really looks like, using reliable figures and removing emotion from the issues; is the only way to fairly assess the situation.

This report aims to take a neutral stance on foreign land ownership. Current views and facts have been collated and discussed, finding common ground between some issues and blatant differences with others.

The five main emotive issues surrounding foreign land ownership were easily recognised due to the very public debate had in New Zealand. Background, discussion and conclusions on these five issues completed the report. The issues were, use and or loss of our intellectual property, financial loss, New Zealand jobs being taken by foreigners, loss of security around valuable resources and lastly increasing land prices out of reach of New Zealanders, especially young entry level farmers.

Three case studies were used to gain insight into these issues; each was from a different ownership structure and held rural land here in New Zealand. The three structures were owner operator, owner who spends half their time here and the other half in their home country and lastly absentee owner.

The key findings relating to the emotive issues were:

- Since August 2005, 274,400ha of rural land has been sold to foreigners, with the vast majority of this made up of forestry. When compared to the total rural land area in NZ this foreign owned chunk makes up 1.44%.
- When compared to foreign investment in New Zealand as a whole, by sector rural land has some of the lowest figures sitting at 1.5% of the total in 2009, with finance and insurance coming first with 61% and manufacturing second at 9%.
- The view on intellectual property was that it's only worth what someone is willing to pay for it and that the use and benefit of an idea isn't going to be diminished by sharing it with someone.
- An example of the limitations of this study showed through in the financial section, where the financial performance of foreign owned properties was being challenged. Without honest and reliable data, conclusions couldn't be made either way, but it was clear from the case studies that efficiency from their investment was key as well as supplying local or NZ owned processors where they could. It was also prudent that if these investors chose to send produce overseas there should be no more restrictions to this process as there isn't for any New Zealander.

- The case studies displayed a clear preference of using New Zealand staff on farm; this was due to New Zealanders having the required skill base and experience rather than a play on nationality. It was also realised throughout this study that New Zealand farmers are looking overseas for farm staff, using recruitment companies to search as far as the Middle East. This tends to quell the idea that it is foreign investors bringing in an all-foreign work force.
- The threat to permanent loss of resources would only be apparent if foreigners could take the land with them. Regulation helps secure the rest for New Zealand.
- In respect to land prices being pushed out of reach of young New Zealanders, it seemed the blame couldn't be narrowed down to one factor. It was admitted that foreign investment in NZ could be driving prices up, but suggestions were made on how to mitigate this issue. It was also recognised that bank behaviour and the farmer paying too much for the neighbouring farm was doing a lot of damage to the entry level farm price. There wasn't a lot of feedback on the long term lease option for foreign investors, mainly due to the lack of knowledge in this area, hence a recommendation for more investigation.
- Variance in structure was obvious from the start. The owner operator was heavily involved in New Zealand and seen as a real asset to the country. The owner spending half his time here and the other half away was also passionate about his land and its production but was less aware of what is going on around him. The absentee owner was in this case more interested in profit only. This seemed an unlikely fit for New Zealand and upon investigation it was found there are almost two types of absentee owner, those who love the land, the country and purchase here to enjoy their bit of paradise, and the other buys typically for larger returns on their investment not tending to give consideration to the area or nation they have invested in.

Due to the sensitive nature of the topic there were of course limitations to the information gathered; contributing to this also was the small size of the target group studied. Limiting also was the lack of reliable data on foreign land ownership before 2005. Assumptions therefore had to be made in certain areas.

It is clear from this report that New Zealanders have a love-hate relationship with foreign investment. In one hand we want all the benefits it brings and in the other we want to protect our sovereignty and valued possessions. On both sides the confusion stems from a lack of communication around what foreign ownership in New Zealand is about as well as a touch of inherent fear of the unknown. It seems the solution is a work in progress and this debate may never come to a satisfactory end for all, but armed with facts and knowledge we are able to make up our own minds.

Due to the nature of the report being more of a think piece approach, recommendations on the issues weren't expected. Although there was some good feedback from the case studies and various other resources, with suggestions on some issues that I have included. The first included a few additions to the Overseas Investment Office, one was the idea of adding a cap to the amount of land a foreign investor can purchase hereby still allowing the valuable flow of capital into our country without the public fearing for losses of sizable chunks of land and control. The other was the creation of a appropriate database of overseas land ownership in New Zealand, allowing reliable unbiased statistics to be drawn on at any one time. The second was a scheme to help young farmers enter the farm ownership market by linking them with suitable equity investors. The third was a suggestion for a more thorough investigation on long term lease of NZ land to be carried out. Lastly the point was made that various other options could be used to ensure the value of our agricultural land and produce in the future. By exploring some of these options such as building greater linkages with Asian markets, on-farm productivity innovations and year round market service could then see our countries reliance on foreign investment decrease.

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INTRODUCTION

Many European settlers arrived in New Zealand with the hope of owning and farming their own land. Traditional Maori ideas of land ownership frequently came into conflict with European ideals. Today, controversy over foreign ownership shows that many New Zealanders still feel strongly about the importance of land.

A huge portion of NZ's comparative advantage resides in our land and the income generation from it. As such there is strong interest in maintaining local ownership. A firm but fair regulatory framework is key. Yet at the same time benefits from overseas investment must be recognised. Foreign ownership in the rural sector is relatively small but can bring substantial benefits in the form of linkages to international markets.

This project seeks to explore what foreign ownership of New Zealand's pastoral land really looks like. It is important to explore the actual truth and facts because this is such a contentious issue. For many New Zealanders the thought of foreign ownership stirs feelings of sovereignty. It raises questions about the security of our land and resources for future generations, worries some about the safety of our hard earned intellectual property and for others it's simply a question of whether or not foreigners will farm in a conventional way.

Firstly a background on the current state of foreign pastoral land ownership in NZ will be outlined, before briefing the reader on the key issues behind New Zealanders passionate views, followed by three case studies of various foreign land ownership structures. The contrasting differences and similarities are then compared and discussed along with the case study owners' outlook or responses to the five emotive issues outlined earlier. The report concludes by wrapping up the wider issue trailed by a couple of recommendations that came out of the case studies.

METHODOLOGY

Due to the opinionated theme of this report a case study approach was taken to gather first-hand information from 'the horse's mouth' per se. Three varying types of NZ foreign land owners were interviewed about their thoughts and feedback on five of the most emotive issues frequently used in the foreign land owner debate. To give a broad view the three structures involved were owner operator, half/half and absentee ownership. Data and statistics were acquired from reliable sources, whilst emotive and passionate views were evaluated from various newspaper and online articles as well as a thorough analytical review of organisations journals and publications.

CURRENT STATE OF FOREIGN LAND OWNERSHIP IN NEW ZEALAND

OVERSEAS INVESTMENT OFFICE

“The Overseas Investment Act 2005 ensures that land of particular significance or importance to New Zealand is protected, while also encouraging foreign investment where it can make a positive contribution to the New Zealand economy.” (LINZ, n.d.)

When a foreigner wants to purchase land in New Zealand they must go through the Overseas Investment Office to gain consent. There are a few exceptions which can fly under the radar, such as if the foreign investment is under 25% holding of the total ownership or if the land in question isn't sensitive land or over 0.2 to 0.4 hectares in size. Therefore any reasonable farm purchase will require OIO consent.

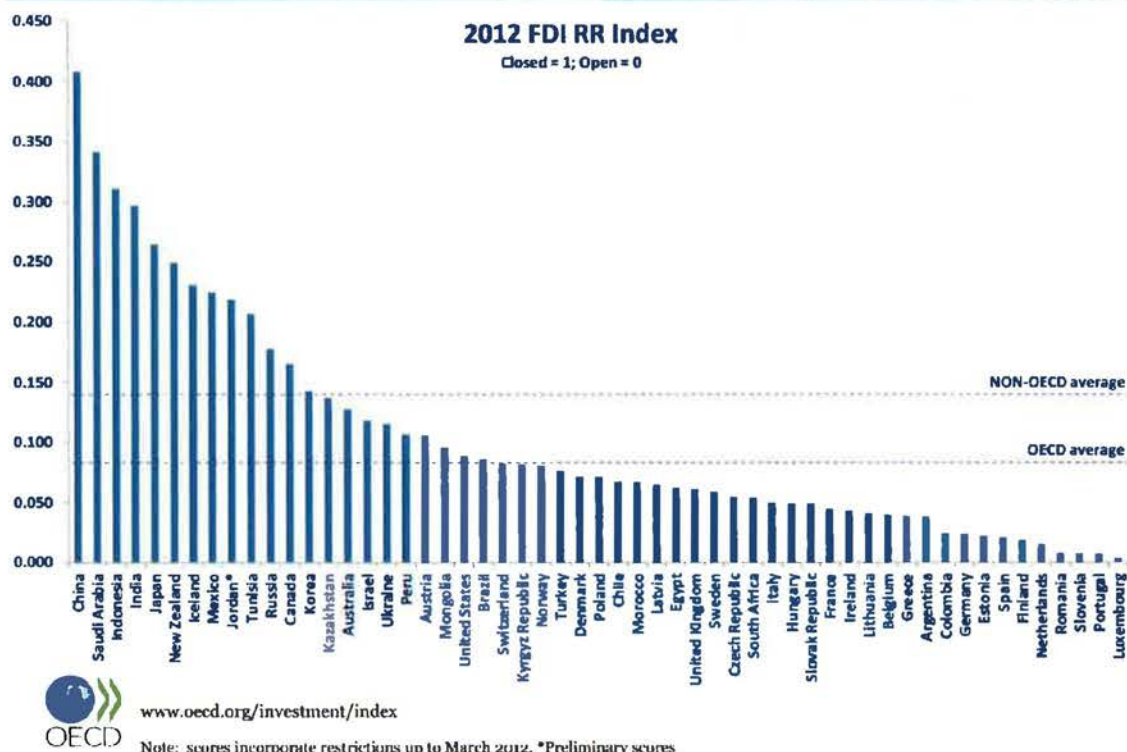
The main essence of the OIO consenting process for the foreign investor means they will need to:

- demonstrate financial commitment, business experience and acumen relevant to the investment;
- be of good character and meet visa/permit criteria related to the Immigration Act (ie no criminal record etc);
- show that the investment must benefit New Zealand. In particular, the creation and retention of NZ jobs, introduction of new technology or business skills, increased export revenue, greater productivity, more value add to primary products and protect or enhance environmental/amenity values of investment; and
- show that the relevant land has been offered or acquisition on the open market to persons who are not overseas persons.

It seems foreign investors have a much higher hurdle to climb when compared to local investors. Like most regulatory regimes there are of course limitations and 'blind' spots, but all in all the framework seems to cover most possibilities.

The table below from Organisation for Economic Co-operation and Development (OECD, 2012) shows that New Zealand is the sixth most restrictive country on direct foreign investment out of 55 members, coming in just behind countries such as China, Saudi Arabia and Indonesia. Screening requirements in NZ are some of the highest among OECD countries.

FDI regulatory restrictiveness index, 2012



Apart from demonstrating New Zealand's restrictive stance on FDI, this graph also illustrates some of the countries with lesser constraints, with some countries namely Germany, France, the UK, Portugal, the Netherlands and Belgium having no restriction's at all, they treat foreigners on the same basis as nationals.

CURRENT STATISTICS

Total foreign direct investment (FDI) in New Zealand was \$97.3 billion at 31 March 2012. Two-thirds of FDI in New Zealand was from Australia (mainly through the major banks) and the United States, with the next-largest source of FDI into New Zealand being the Netherlands. Japan, the United Kingdom, and Singapore round out the six largest sources of FDI at 31 March 2012. (STATS NZ, 2012)

The data below outlines decisions and summaries from applications made to the OIO in the last seven years. In total there have been 655 freehold consents granted and 187 lease consents approved. Throughout these seven years only 19 consents were turned away.

Since January 2006 till June 2012 the OIO office states that 351,668ha of freehold land has been sold to foreigners, with another 146,245ha of crown or lease land also transferred to overseas investment.

Jan-Dec	TOTAL # of approvals	# of freehold approvals	Net Freehold area	# leases approved	Net Lease area	# of declines
(Jan-June) 2012	50	39	19,174	10	259	
2011	146	106	68,054	36	23,627	5
2010	123	80	17,040	22	14,790	3
2009	158	130	22,345	26	9,897	0
2008	130	96	10,607	26	24,778	4
2007	148	89	16,102	37	957	4
2006	160	115	198,346	30	71,937	3
TOTAL	915	655	351,668	187	146,245	19

(data from LINZ, n.d.)

These figures include any land area that must come through the OIO which can include residential, industrial, commercial, pastoral, horticultural land and the largest chunk made up by forestry.

Terralink gathered some data from the Overseas Investment Office about consents specifically relating to rural land only. Between August 2005 and March 2012 there has been 274,400ha of rural land sold to foreigners; dairying and pastoral land making up 65% of that at 180,100ha, with a large chunk of the rest sitting under forestry. To give a visual on this rural land now owned by foreigners, 274,400ha equates to around four and a half times the size of Lake Taupo. Bearing in mind this data relates to all consents applied for and doesn't guarantee they were all accepted but it starts to give you some insight into the facts and the reality of the situation rather than relying on rumoured figures plucked from thin air.

When compared to the total land area in NZ, the rural land in foreign ownership makes up 1.44%, with dairying and pastoral sitting at 0.71% and 1.51% against their respective total areas. (Terralink, 2012). It shows that the Crafar farms account for more than 50% of dairying land consented for foreign ownership since 2005. Proportionally more industrial and commercial land is being sold to foreigners than other land category and when looking at all foreign investment in New Zealand in general, by sector it is most concentrated in the financial and insurance services area, which in early 2009 accounted for 61% of the total, the manufacturing sector has the second largest foreign investment accounting for 9%, while investment in the agricultural sector is very small with around 1.5% of total foreign investment in NZ. (ANZ, 2010)

These figures aren't meant to trivialise the issue but rather to put it in perspective. The real issue is that these small areas and effects accumulate over time, which is why these trends must be monitored carefully to understand what factors are driving them.

MOST EMOTIVE ISSUES FOR NEW ZEALANDERS

Many of our largest 'crown jewel' companies such as Telecom, Contact Energy, Fletcher building and Fisher and Paykel appliances have significant foreign investment already, something that is readily accepted by the New Zealand public. They are also among our largest employers. A recent study showed about a quarter of Aucklanders work for foreign owned companies. However when it becomes clear that inbound investors are looking for opportunities in the rural sector, the heart of New Zealand, things tend to get very controversial and emotive. Many liken it to selling the family silver.

These topics were derived from a perception of the public's view on foreign ownership and tend to be the key emotive issues that are used in the foreign land ownership debate.

USE AND OR LOSS OF OUR INTELLECTUAL PROPERTY

Many New Zealanders feel that by allowing foreign land ownership we are also freely allowing them the use of our 'hard earned' Intellectual Property. Some feel our agricultural IP is what gives us the leading edge as a small player in the world and by letting anyone use this valuable information they feel we are losing our advantage.

FINANCIAL LOSS

There has been the argument that foreign land ownership may be taking profits back overseas and not contributing as much as they can to the New Zealand economy.

New Zealanders understand that foreign land owners can bring a lot of capital into the New Zealand economy but they are worried that more of the income is taken or spent overseas rather than re-injecting back into New Zealand. Some feel this is achieved through not processing farm outputs here before exporting and even the notion that some are paying less than their fair share of taxes.

But the question remains are these foreign owned properties even making enough profit to syphon off overseas? A high profile example is Shania Twain's previously owned properties in the South Island, figures released by the National Business Review in 2010 show that the property has been running at a huge loss for many years, which means there is no chance of a profit to syphon overseas but in the same respect this loss is a huge negative for New Zealand in that no tax will be paid into the NZ economy.

In the same respect a report from KPMG (2012) announced New Zealand Farming Systems Uruguay is considering raising up to US\$135m in capital after making a loss of US\$7.6m for the year ending June 30 2012. The loss was due to lower milk revenue and higher foreign exchange losses. It seems the risk works both ways.

NEW ZEALAND JOBS BEING TAKEN BY FOREIGNERS

There is the thought that with foreign land purchase comes foreign farm staff, thereby taking positions in jobs that New Zealanders feel are rightly theirs.

New Zealand foreign land owners may wish to employ staff from their own country for a variety of factors such as the labour may be cheaper, the owner may have familiarity with the employee's ability and skills, and the labour may be more familiar with the farming system and culture.

LOSS OF SECURITY AROUND VALUABLE RESOURCES

Food is beginning to rival oil as a basis of power and economic security, therefore control over the land that produces this power is now more critical than ever.

With many emerging Asian countries populations growing exponentially, some NZ's feel foreigners are looking to invest in NZ pastoral land to secure resources for their countries requirements in the future. This argument also seems stronger for land than other investments as it is seen as a finite resource.

KPMG produced a report which stated they see this pressure only increasing in future years:

The challenge of feeding an ever growing global population is attracting the attention of investors around the world on to prime agricultural assets. The ability of the NZ primary sector to produce safe, high quality and sustainable food means that there is potential that interest from overseas buyers could intensify as investors seek high quality assets. (KPMG 2010. pg 2)

Another point of contention for New Zealanders is the fact that we don't see a huge amount of reciprocal rights to purchase land in some of the countries that purchase land here. We are constantly told about not wanting to jeopardise free trade agreements and partnerships but when New Zealanders cannot purchase land or secure resources in the same country (i.e. CHINA) that is purchasing land in NZ, it tends to put a sour taste in New Zealanders mouths.

INCREASING LAND PRICES OUT OF REACH FOR NEW ZEALANDERS

Probably the most passionate of issues raised is the prospect that more foreign land ownership in New Zealand will lessen availability and affordability of land for future generations of New Zealanders.

Many feel the prices foreigners are paying for land in New Zealand is in excess of what everyday New Zealanders and young farmers wanting to enter the market can afford to pay. The other point that goes hand in hand with this is that foreign land owners tend to purchase a few smaller properties together to create a larger more profitable investment but at the same time this pushes the 'family farm' type, small farming systems out of reach and accessibility for younger new land owners entering the market.

There is also the argument that only New Zealanders should be able to purchase land in New Zealand and any other nationalities should only be permitted long terms leases. This would give New Zealand security around the future ownership of their precious land and country.

CASE STUDIES

As mentioned earlier, three differing foreign land ownership structures were studied to give consideration to the variable types of land investors we have in New Zealand. It also highlights the fact that as New Zealanders we have a habit of lumping foreign investors together as one, tending to tar them all with the brush of past or present unpopular actions of a sole individual.

NEW ZEALAND'S AGRICULTURAL INTELLECTUAL PROPERTY

New Zealand's agricultural industry is known for its cheap production through grass based systems, but we must remember we aren't the only country or even the first country to come up with this idea. We are great innovators, sometimes fondly known as taking the 'number 8' wire approach but most of our ideas stem from pre-existing concepts used in other countries and are just adapted, adjusted and structured so that they suit New Zealand's practicality. 'Yes New Zealand has some good ideas but they don't have the monopoly on good ideas' (case study one)*¹

A lot of this 'valuable' IP lies within New Zealanders in the agricultural industry. It is one thing having access to tools and information on how to farm better but putting this into practise is the real secret to success.

Two of the case studies had a very similar view on IP in that it is only worth exactly what people are willing to pay for it, and most of the time that is nothing. "Your use of an idea is not diminished by sharing it with someone" (case study one)

Case study one has obviously learnt a few life lessons on how New Zealanders operate, "Integration into the NZ rural scene is a fine line between being helpful with new ideas and being seen as meddling by ignoring old ones".

FINANCIALS

All three case studies supplied local or national processors and explained that this decision was made mostly out of ease of use, but as long these companies continued to be competitive with industry around the world they were happy to continue to supply them.

"It's not as easy as one may think to send product overseas; it's not just a matter of finding a buyer and plonking your beef on the next ship out of here" (case study two)*²

**1 – case study one, owner operator structure*

**2 – case study two, half/half ownership structure*

Similar comments by two of the case studies demonstrated the perception that restriction of foreign investment will slowly kill New Zealand's economy. "By restricting foreign investment it will increase NZ's risk premium, causing borrowing costs to rise for households, businesses and the government. Given NZ's current debt levels this will reduce economic growth and income, probably not the best way to reduce the gap with Australia; something New Zealanders seem determined to do." (case study three)*³

Case study two made reference to the Crafar farms "Isn't it ironic how the most controversial current foreign ownership sale came about from a NZ family owned business that not only collapsed financially but also ran into all sorts of animal welfare and environmental issues, hardly a model farming business for NZ"

It must also be remembered that New Zealanders aren't giving this rural land away for free. The seller, a New Zealand resident receives the proceeds of the sale and what they choose to do with this money matters more. They could pay down debt, spend it or re-invest either here or offshore, which can generate a future income stream. (case study three)

NZ JOBS

It was blatantly clear from all three case studies that using New Zealand staff on their properties' was a given. There was never much thought of using staff from their home countries; put simply they explained that New Zealanders have the required experience. They want to run their farms as efficiently as possible and to do this they require skilled, reliable staff and they find these capabilities in New Zealanders.

RESOURCES

Once again a common theme amongst the case studies demonstrated their belief that New Zealand's resources will only be at risk of permanent loss to another country if in fact foreign land owners could take NZ purchased land with them, and we all know that cannot happen.

It was also pointed out that in New Zealand you don't own the valuable minerals or geothermal steam under your land as you do in the US and you cannot make claim to a river that runs through your property without resource consent, all of which is at the mercy and discretion of New Zealand regulation. Foreign land owners are still subject to New Zealand law.

"Many countries are having a hard time feeding themselves; more often than not it is due entirely to poor political policy. By having land half a world away they are going to run that better? I think not" (case study one)

*3 – case study three, absentee ownership structure

LAND

The collective impression from all three case studies was that the exorbitant prices paid by New Zealand farmers for the property next door is doing a lot more damage to the affordability of an entry farm than foreign buyers.

There also wasn't a huge appetite by any of the case studies for the option of leasing New Zealand land instead of purchasing. There was a mention that this would deter foreign investors' interest if coming from freehold title country and one case study expressed they couldn't see what this method would really achieve.

There wasn't a lot of opinion about the relation between foreign land owners and land area. The general feeling was that the notion of the small farm being gobbled up by foreign investors doesn't really have a lot of weight as this practise is currently occurring with the increase in corporate farming in New Zealand anyway.

"Yes some say foreign ownership is driving up the price of land, yet is it wrong to expect that a retiring farmer should get the maximum possible price for his life's work?" (case study one)

VARIANCE IN STRUCTURE

The first case study (owner-operator), tended to be very interactive in the community, even more so than most New Zealanders. They are very interested in efficiency of production but also appreciate New Zealand's farming system for what it is, riding the ups and downs of farming with the rest of the country.

The second case study, ownership where the holder spent half their time in New Zealand and the other half in their home country are less involved in National or substantial time commitment community projects as they aren't around for the whole year and don't want to promise assistance when they know they won't be here. They are still very passionate about the land and want to do the best by it. Production was still on their agenda but they were more concerned about their lifestyle here and protecting this.

The third case study (absentee owner) was not involved in the community in this instance. Their main priority was concentrating on production and increasing efficiency and output of the farms.

It became apparent through research into this topic that there are various types of 'owners' that fall under the absentee owner umbrella. The two main types that appeared most frequently were those who want to still enjoy the land, using it as a vacation/holiday getaway, while the other is running the properties as part of an investment portfolio. This second absentee owner variation was where foreign investment seemed the most detached from the land and New Zealand as a country, focussing mainly on profit. This structure

seems to be the least preferable by New Zealanders and thankfully seems to be a very small minority of foreign owners in New Zealand.

Certainly there have been other examples where even from abroad, absentee owners can add a huge amount of benefit to the NZ public such as Young Nicks Head. Owned by a New York financier John Griffin, millions has been spent restoring wetlands and erosion prone areas, establishing an open covenant to protect the remainder of the headland area from commercial development and setting up trusts for local iwi. All part of an impressive list of conditions set by the New Zealand Overseas Investment Office.

DISCUSSION

BENEFITS TO NEW ZEALAND

We also need to look at the reasons behind New Zealand's requirement for foreign investment. New Zealand's Finance Minister Bill English (2012) explained that "As a small country, we naturally rely on FDI to help us achieve economies of scale, and for access to ideas and consumer markets. We do not have the large stock of capital which older and wealthier countries have"

A report by ANZ (2010) demonstrated that statistical and empirical evidence generally pointed to foreign direct investment bringing substantial economic benefits to New Zealand. This can manifest in three broad areas: First, as a source of capital to supplement New Zealand's domestic savings; Second, as a driver of growth in wages, employment and output; And third, for the transmission of technology, skills and know-how to New Zealand and for improving connections to valuable international markets.

In his interview with Alex Tarrant (2012), Bill English explains that foreign investment can bring benefits that foreign borrowing does not. He stated that the biggest value for our small economy was that FDI provides a stronger buffer against economic shock because investment comes without the fixed interest payments of debt.

Yet the leading reason behind New Zealand's need for injections of foreign capital is because as a country, we do not save enough to fund all our investment needs.

The last time the country was in the black was 1973 (ANZ, 2010) since then we have continued to stay in the red. The logical way to balance the books is to borrow or sell assets. With the cost of debt and borrowing rising and New Zealanders track record of slow saving it seems our only way out is through the sale of some assets and being known to the world for our agricultural success this means some of our prime pastoral real estate will be up for grabs.

Bill English (2012) also spoke about some figures surrounding foreign investment in NZ. "In 2008, Treasury concluded that foreign capital flows into New Zealand lifted incomes by around NZ\$3,800 per worker between 1996 and 2006 in today's prices, and lifted wealth by NZ\$16,000 per person" "Foreign investors in New Zealand do take out some profits, but between 2006 and 2011 they have also reinvested about 25 per cent of their returns on equity back into New Zealand."

It was mentioned a few times by the case studies that the perspective of the farm owner needs to be considered also. If foreign investors are excluded to meet public demands, farmers wishing to sell may see their assets significantly devalued. This could very well push

some highly indebted dairy farmers into negative equity positions as well as creating an arguable case that landowners should be compensated for their losses. (Roger Kerr 2010)

Willy Leferink had a fair outlook when he spoke to Jody Robb (2012) about his thoughts on foreign investment in NZ. Instead of making judgement on ownership we should look at intent and what those owners give back to the land and to the country. New ideas and a global perspective enhance what NZ does on the rural stage. "We need to be aware of where we fit into the world. We need to open our eyes to different ways of doing things and not have our head in the sand".

FINANCIAL

All in all it appeared the three case studies had a similar view about financial performance of foreign investment in NZ land; that the issue is far more complicated than we as New Zealanders want to believe, various other factors come into play making it impossible to label anything as simple as black or white.

The impression given was that the majority of foreign land owners contribute to the NZ economy by supplying NZ processors, but it is clear this is a personal choice made upon ease of use among others. It was also clear that there is nothing stopping New Zealanders supplying overseas buyers or exporting directly overseas, therefore why should stops be put on foreigners who wish to undertake the exact same thing?

Due to the sensitive and personal nature of the financial performance of the foreign owned properties there were no facts to either back up or quash any claims of underpaid taxes or shipping profits offshore. There are also many other 'unseen' factors that contribute to the performance of a farming property, such as reinvestment; a lot of the time the true value of these factors isn't recognised.

It seems we tend to once again lump foreign land owners into a couple of financial categories; they either make a good profit and syphon it off overseas or they make a loss and don't pay their fair share of taxes, it seems difficult to achieve a happy medium. The ability to prove to the New Zealand public the truth behind foreign land owner's financial performance will always remain a mystery as it does with any New Zealand land owner. Unfortunately without solid proof either way this argument may still continue to appear throughout the New Zealand public.

NEW ZEALAND JOBS

It was clear that the three foreign owners interviewed were able to find and employ suitably skilled New Zealand farm staff, but it seems this pool of labour isn't big enough to go around. There are cases of New Zealand farmers looking overseas for staff which paints a very different picture than the debate of foreign investors bringing in the overseas staff and taking New Zealanders jobs.

In October's KPMG field notes there was an article about how a national dairy recruitment company Fegan & Co are 'looking further afield for people with the skills needed to work here.' They are currently expanding their range of countries that they source their farm staff for New Zealand farms from and were looking into tapping the Middle East for talent.

LAND

It was acknowledged (amongst other reasons) through the case studies and recent farm purchase statistics that foreign land ownership could be pushing farm ownership out of reach for young New Zealanders. To battle this Collins (2010) suggests we develop schemes to link young farmers with potential equity investors to provide an entry point to the farm ownership ladder.

There also may be a bit more going on behind the scenes when talking about the rise in farm prices. It seems we are quick to blame the foreign investor for paying too much for the local farm but coupled with the case study mention above about NZ farmers paying too much for the property next door perhaps banks have a bit to answer for?

Bruce Wills completed a Kelloggs Rural Leadership paper on 'The NZ rural property market?: Where to from here?' which talked about the market experiencing 'irrational exuberance' and that prices being paid for rural land could not be justified by farm incomes. Between 1990 and 2000, the price of rural land doubled. It doubled again between 2000 and 2005. And again between 2005 and 2008. Prices were largely fuelled by a flood of cash from the banks. According to data collated by the Reserve Bank, over the past seven years alone the amount banks have dished out to the agricultural sector has more than doubled from \$19 billion to \$47 billion (Scherer, K. 2011). The dam burst in early 2008, and land prices plummeted. Some farmers whose property values halved now owe more to their banks than their farms are worth. A common refrain from rural bankers at the time was that debt was like a good working dog - you shouldn't keep it tied up. Many farmers claim their banks bullied them into taking on more debt. Sometimes it is simpler to point the finger, claiming foreign investors are lifting land values out of reach is easier than looking around in our own backyard.

One question that didn't succeed in getting much constructive feedback was the option of long term lease instead of purchase for foreign investment. There was no real hard and fast reasons behind the reluctance to lease instead of purchase, which leaves the door open for more investigation into this option. A residential foreign investor very crudely summed up foreign ownership and lease to me by likening it to the difference between renting or owning a house. Ownership is power – owners make the decisions, owners reap the rewards. For tenants, it might be a very comfortable tenancy, but that can change at the whim of the owner; there is no long-term security of tenure. It seems the main theme here is like us New Zealanders, foreigners are looking for security, the only problem is we are at opposing ends of the scale.

NEW ZEALAND'S INVESTMENT OVERSEAS

Sometimes we get so focused on what is happening in our own country we forget that New Zealanders are also foreign investors abroad. In 2009 New Zealand investors had \$126b invested overseas.

Many New Zealanders as well as large entities such as Fonterra have huge investments in farms in China, Brazil, India, Uruguay etc. Should other countries ban such New Zealand investment? Since as mentioned in the example above under the emotive issues chapter, New Zealand investment overseas doesn't always create great returns either.

The foreign ownership report by ANZ (2010) also stated some home truths. The world isn't a fair place when it comes to trade, but New Zealanders are staunch in our standing in regard to free trade and the principles behind it, leading from the front. This is an area where consistency is key, therefore we can't be seen breaking down barriers with one hand but erecting them with another.

REGULATION

It was clear from the case studies that although they enjoyed the freedom of owning their own land in a country renown for being the 'mecca of farming' they still respected the fact that they are governed by New Zealand law and under the regulation of local and regional council bodies along with the rest of New Zealanders.

It is clear we need to ensure that appropriate public access to places such as beaches, rivers and historical areas remains for the New Zealand public but again this is a matter of regulation, not ownership.

Anders Crofoot made a valid point when he spoke about farmers needing to be more proactive when it comes to policy making, "I believe we must stay involved on that policy level feeding into local and national government decisions, otherwise we run the risk of poor policy being made that affects New Zealanders ability to farm effectively"

Regulation is the point in which higher standards can be created and upheld, perhaps some for foreign land owners only or perhaps for all farmers in general. Our land and environment are fragile and reliant on our care, if we don't look after our country sustainably then the ownership debate for all will be invalid.

As Anders Crofoot said "Who owns the land – local or foreign – is really not the point; we are all mere stewards of the land with an obligation to do the best job we can while it is under our pastoral care."

LIMITATIONS

Clearly limitations exist when only a very small percentage of a focus group is surveyed.

The main problem with the theme of this project was that everyone has a biased conflicting view depending on their standing within the issue.

Therefore the key limitation, due to its contentious nature, was the difficulty around getting frank, honest comments from the groups targeted. New Zealand's public view on foreign ownership is somewhat negative, something that foreign land owners are very aware of. This made it hard to distinguish between uncensored honest answers or strategic, deliberate responses they know the public want to hear. There is no easy way of getting around this barrier, most want to be part of a good news story but no-one wants to be perceived as the enemy. Those foreign owners with nothing to hide were more than happy to help me out with feedback whereas those that knew they didn't contribute as much as they could, were less willing to participate.

The second limitation was the ability to find reliable data and statistics on foreign land ownership in NZ before 2005. It seems there wasn't a suitable system set up to record such data before this time. Therefore only captured figures after 2005 could be used as reference to the current statistics on foreign land ownership in NZ.

CONCLUSION

As a country we have quickly jumped to conclusions, started offering or demanding solutions before even taking the time to understand the principles that underpin foreign investment in New Zealand, as well as questioning why New Zealanders invest overseas.

By reviewing foreign land ownership from a neutral angle it allowed some perspective to be put around the facts and figures of the issue. Learning that since 2005 only 1.44% of our total rural land is in foreign ownership doesn't give you the feeling we will soon be tenants in our own country. Not to say that this isn't a significant amount but it just reinforces the fact that everything must be looked at with a rational and realistic hand despite the emotive nature of the issue. Yes the Crafar farm example has created a stir, but at around half of New Zealand's total recorded foreign owned dairying land (7892ha of 14,900ha total) you would expect the entire country to look.

Out of the five most emotive issues discussed throughout the report, three were unfounded in their claims, loss of NZ IP, NZ jobs being taken by foreigners and loss of resources. The increase of land prices out of reach of New Zealanders had some truth behind it but it was recognised that foreign ownership wasn't the only factor causing this issue. A broad recommendation was made to try and mitigate some of this effect. The last of the five emotive issues, the financial performance of foreign owned properties was more unsolvable. Without reliable facts and figures these claims cannot be analysed accurately and the sensitive nature of the information involved means that the reality of this subject may always remain somewhat murky.

As far as ownership structure goes, it seemed that owner operator and half-half ownership were best suited to New Zealand's ideals, but then a certain variety of absentee owner also seemed to satisfy the public. Then again this is not a one size fits all scenario; each separate case should always be taken on its own merits.

In terms of going forward, before any rash decisions are made either way the full consequences of each solution must be fully investigated to ensure we don't do more harm than good. Just as Jean-Pierre de Radd told the NZIER in 2010 "It is unlikely that any 'feel good' factor associated with limiting foreign investment will compensate New Zealanders for the 'feel bad' consequences of a lower standard of living".

It is clear from this report that New Zealanders have a love-hate relationship with foreign investment. In one hand we want all the benefits it brings and in the other we want to protect our sovereignty and valued possessions. On both sides the confusion stems from a lack of communication around what foreign ownership in New Zealand is about as well as a touch of inherent fear of the unknown. It seems the solution is a work in progress and this

debate may never come to a satisfactory end for all, but armed with facts and knowledge we are able to make up our own minds.

RECOMMENDATIONS

INCLUSIONS FOR THE OVERSEAS INVESTMENT OFFICE

Include a cap on the amount of land an inbound investor can hold, to prevent significant concentration of land ownership whilst avoiding any detriment to the future wealth of the economy.

Secondly to avoid future confusion over statistics of land held in foreign ownership a proper database should be established, that is accessible by the public and breaks down sales into land or farming types. This will also need to be updated to reflect when foreign owned land is then sold back to a New Zealander, enabling a clear picture to be drawn on how much land is actually in foreign ownership at any one time, rather than relying on historical statistics.

Even though there has been recent review on the decision making process of the OIO it still seems like the NZ public want more, therefore now seems an opportune time to consider what an optimal investment environment surrounding rural land may look like, to maximise productivity benefits and economic wealth for the NZ economy. It is important that we have clear and stable policies that provide certainty to potential investors as to the criteria that have to be met to invest in sensitive and strategic assets in this country, as well as appropriate structure around the process to put New Zealanders at ease.

HELPING YOUNG FARMERS ENTER THE FARM OWNERSHIP MARKET

Collin's (2010) suggestion of a scheme to link entry level farmers with potential equity investors seems to be a logical and feasible option of enabling the younger generation of farmers into eventual land ownership. This scheme could also help the transition of knowledge and wealth creation from generation to generation required due to the ageing farming community. Some examples of this structure working successfully already exist in the dairy industry; lessons on the good and bad of these situations should be studied so that they can be applied more extensively to a broader range of rural land ownership.

LOOKING AT THE OPTION OF LONG TERM LEASE

To ensure all available options are explored to put New Zealanders at ease over foreign investment the pros and cons of long term lease should be further investigated. Once a full review has been completed the option could then be compared to purchase of land and more informed decisions could be made.

ENSURING FUTURE LAND VALUE

There are some other options that can be thought about to help ensure the value of our agricultural land and its produce in the future, rather than relying on foreign investment to open these doors. These are issues such as reassessing the supply and production chain, creating greater linkages with the rapidly growing Asian market or even re-examining ballooning cost structures. There is plenty of room for product transformation and future value-add as well as new on-farm productivity innovations with widespread adoption. Lastly rural New Zealand could look into investment off-shore to service larger markets 365 days of the year.

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