



APX SUBMISSION TO AGRICULTURAL COMPETITIVENESS ISSUES PAPER

April 2014





Table of Contents

DEFINITIONS	1
1. AGRICULTURAL COMPETITIVE ISSUES PAPER INTRODUCTION	2
1.1 Objectives – food and fibre in the 21 st Century	2
1.2 Our submission focuses on equity capital markets – access to finance	2
2. WHO WE ARE – A NEW START UP GLOBAL PLAYER	4
2.1 Asia Pacific Stock Exchange Limited	4
2.2 APX - bridging Asian and Australian capital markets	4
2.3 Asia’s food bowl – China, Japan, Indonesia, Malaysia and others	5
2.4 Australia and New Zealand – “coopetition” and export branding	5
3. ISSUES 3 – ENHANCING ACCESS TO FINANCE	6
3.1 Agribusiness financing – need for concessions	6
3.2 Agribusiness transitioning to public listing	6
3.3 Agricultural revenue based financing	6
3.4 Agricultural cluster based financing	8
4. AGRICULTURAL COMPETITIVENESS ISSUES CONCLUSIONS	9

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DEFINITIONS

The following terminologies are referred to in this document:

Abbreviation / term	Definition
ACI	The Agricultural Competitiveness Issues paper
APX	Asia Pacific Stock Exchange Limited ACN 080 399 220
CIFR	Centre for International Finance and Regulation
ECA	Export Council of Australia
FSI	The Murray Financial Systems Inquiry, 2014
HKEx	HKEx Group is the operator of exchanges and clearing houses based in Hong Kong,
RMB	Renminbi; the Chinese yuan currency
SGX	Singapore Exchange Limited



1. AGRICULTURAL COMPETITIVE ISSUES PAPER INTRODUCTION

1.1 Objectives – food and fibre in the 21st Century

- This submission notes that the Agricultural Competitive Issues paper (“the ACI Paper”) is examining how Australian agriculture could, as one of the five pillars of our economy, be positioned to best build a better farm sector and a more prosperous future for all Australians. We support the Australian Government’s vision that it wants an agricultural sector that lasts, as well as being a sector that grows and delivers a greater return to our nation. The objectives are to grow Australian agriculture’s competitiveness, farm gate profitability and ensure it contributes to Australia’s prosperity – including the prosperity of our rural and regional communities.
- We applaud the ACI Paper’s terms of reference and wide scope, seeking input from a broad range of stakeholders to guide the development of a White Paper, via three phases: the ACI Paper, the Green Paper, and finally a White Paper.
- The ACI Paper raises questions on matters that influence the competitiveness of Australian agriculture such as:
 - food security;
 - improving farm gate returns, including drought management;
 - access to finance;
 - competitiveness through the value chain;
 - regional communities;
 - inputs along the supply chain;
 - reducing inefficient regulation;
 - enhancing agricultural exports; and
 - effectiveness of incentives for investment and job creation
- We speak from both a domestic and international perspective. We trust that our submission on the ACI Paper will work towards Australia protecting its national interest while advancing its return from a global environment.

1.2 Our submission focuses on equity capital markets – access to finance

- Our submission on the ACI Paper fully supports the stakeholder input process. We note that Australia previously has had only an informal agricultural policy. We believe Australia should have a comprehensive trade and investment strategy, of which agriculture should be a key component.
- Unlike the finance sector, the agricultural sector had not seen the benefit of recent developments in the Australian financial system, best reflected in the 1997 Financial System Inquiry (Wallis Report) which dealt with how Australia funds its growth, domestic competition and international competitiveness, and the current cost, quality, safety and availability of financial services, products and capital for users. The financial sector will be expected to benefit from a post-GFC Murray financial systems inquiry (“Murray FSI”) now underway in 2014. We expect to see similar benefits stemming from an ACI White Paper.
- We fully support the Minister for Agriculture’s aim that the ACI White Paper is not just operating as a profound motherhood statement. Indeed, we draw the analogy with the Murray FSI as we share the vision that the agricultural sector should, and will, benefit from a similar inquiry. We share the Minister’s sentiments that although still managing the vagaries of currency, drought, floods, pest and disease and changing markets, agriculture in the 21st century is a technologically advanced and globally integrated



concern. We agree that agriculture today depends upon increased efficiencies, world-best decision support, leading-edge research, strong supply chain partnerships and, as always, a little luck.

- Most importantly to us, as a new entrant and key player in the Australian financial markets, we stress that the ACI White Paper when released towards the end of 2014, will present the Government's long-term strategic direction and policy commitments to promote competitiveness, farm-gate profitability, investment and jobs in the agricultural sector. In our role as a stock market operator, we will like to see synergistic interactions between the ACI White Paper and related elements from the Murray FSI to collectively promote a competitive and stable financial system that contributes to Australia's agricultural productivity growth, promotes the efficient allocation of capital and cost efficient access and services for stakeholders, meets the needs of users including farmers with appropriate financial products and services, and creates an environment conducive to dynamic and innovative financial service providers. Funding solutions and better access to capital for the agricultural sector will see a vibrant, innovative and competitive fifth pillar of the Australian economy. This in turn will facilitate the Government's overarching objective in assisting the agricultural sector to become more competitive in the global markets, be profitable and sustainable.



2. WHO WE ARE – A NEW GLOBAL PLAYER

2.1 Asia Pacific Stock Exchange Limited

- APX is pleased to add its voice to the Joyce enquiry into Agricultural Competitiveness Issues. Amongst other things, we are developing niche public financial markets attractive to domestic and Asian investors of which agricultural business is one major component. We think Australia's agribusiness markets can be improved upon, and by working with this sector we will develop frameworks to attract a new list of products, to meet the needs of investors and to facilitate capital flows.¹
- APX is an Australian licensed listing market operator having held a market licence since 2004. APX was given approval by ASIC to re-commence operating its equities market in November 2013. APX is wholly owned by the AIMS financial group² and is 100% Australian owned. APX provides opportunities for growth oriented companies to raise the capital they need for expansion from a diversified range of domestic and international investors, especially from the Asia-Pacific region. APX is an exporter of Australian financial services IP.

2.2 APX - bridging Asian and Australian capital markets

- We believe significant capital market development opportunities exist in relation to capital flows between Australia and China. Key market segments upon which APX is focussed are:
 - Chinese - based companies seeking capital, market opportunities, or listing in Australia;
 - Australian - based companies seeking capital or market opportunities in China; and
 - Niche markets for Australian and international companies which are not presently well serviced in the Australian market.
- APX believes that a critical facilitator of capital flows between China and Australia will be a trading and settlement platform allowing APX listed securities to be traded in both Australian dollar ("AUD") and renminbi ("RMB") denominations. APX believes that it is the natural exchange for the development of RMB trading. APX is naturally positioned to develop stronger economic relations between Australia and China. A significant step has been taken with the successful floats of two Chinese companies³. APX is able to have dual-listed securities on its exchange, including from the Shanghai, Shenzhen or Hong Kong Stock Exchanges.
- APX sees enormous potential in enabling a dual currency trading platform for equities, and potentially into other financial product classes (e.g. bonds and derivatives) reducing the risk to both investors and recipients of capital investment by reducing currency risk. The goal of enabling Asian investors to directly participate in Australian markets, supported by Australia's well regulated system and regime, is enormously beneficial and needs to be a policy priority. It also enables the "export" of Australian financial services IP and regulatory knowhow, in a controlled environment and so the benefits accrue to Australian entities.
- As outlined above, owing to its strong links with China, APX sees itself as the natural Australian stock exchange for RMB denominated trading in securities in line with Australia's move to create an international RMB hub. APX is planning to introduce dual trading and settlement capabilities in both AUD and RMB for its equities market.

¹ "Broadening Horizons", David Lawrence, COO, Asia Pacific Stock Exchange (APX) examines how new venues can differentiate and work for niche markets, Global Trading, 31 March 2014

² www.aims.com.au

³ AFR 6/3/2014 report "One small step for closer ties". The two IPOs are Australia Samly Holdings and ZhongHuan Yun Holdings.



- APX is looking to exploit its rare chance to be innovative, and to fundamentally redefine the interactions between, and understanding of, both Australian and Chinese financial markets. We are offering a competitive and innovative alternative to the likes of Australia's ASX and China's Shanghai and Shenzhen stock exchanges. As APX progresses its rethinking of how markets can work in the future, we need others, such as the regulators, to step out of the mindset of "how it has always been done", in order to embrace "how it can be done".

2.3 Asia's food bowl – China, Japan, Indonesia, Malaysia and others

- Beyond China and Australia, APX sees itself as an emerging regional stock market player with growing links to Taiwan, Singapore, Malaysia, Indonesia, India, Korea and Japan. APX is a multicultural exchange. The next boom after the mining boom will be soft commodities, including agriculture, and Australian farmers and producers are set to feed and clothe Asia's middle classes. The role of bilateral Free Trade Agreements⁴ and multilateral trade agreements is central to the ability to enhance agricultural exports, while such agreements have quid pro quo trade-offs to balance. APX is very much aligned with Australia's regional focus.

2.4 Australia and New Zealand – “coopetition” and export branding

- While the focus of the ACI Paper is Australia, we ask the question as to whether a future vision for Australia shouldn't also consider cooperation and/or competition with the New Zealand agriculture sector.
- From a market perspective, some agricultural strategies straddle the two countries, drawing upon the strong linkages between the two western economies plugged into the Asian region and time zone. For example, a recent report⁵ commissioned by the Australia and New Zealand Banking Group, detailing opportunities over the next 30 years, concluded that there could be an additional \$710 billion in revenue for Australia (and NZ\$550 billion for New Zealand) (potentially increasing to \$1.7 trillion with favourable conditions and targeted actions) if they were to meet the demands of Asia's newfound wealth, growing income levels and rising population. But to make it happen, as much as \$1 trillion in additional capital is needed to drive production growth and support farm turnover.
- From a banking market player's agribusiness perspective, Australia can not only target the wealthy but can also target some markets that have components that are complementary to the basket of goods it can provide, based on key indicator metrics, such as: population density, urbanisation ratio, income per capita, food expenditure per capita, proportion of food expenditure on Australian orientated exports, refrigerators per 100 households, and fixed investment per square kilometer.
- For example, Australia can benefit from learning from the success of New Zealand's diary business. In that respect, food security and food safety concerns from customers in China sees New Zealand's brand as a strong positive. In much the same way, effective regulatory arrangements in Australia can be seen, not only from the negatives as red tape, but also from the positives as Australia branding.

⁴ We note the recently concluded Korea-Australia Free Trade Agreement

⁵ "The Global Soft Commodity Opportunity for Australia and New Zealand", ANZ Focus, Issue four 2012



3. ISSUES 3 – ENHANCING ACCESS TO FINANCE

3.1 Agribusiness financing – need for concessions

- Australia will play an increasingly significant role in regional agribusiness as global food demand pressures increase while there are constraints on supply.
- Agribusiness is significantly under-represented in the listed equity markets for a number of reasons including investment horizon expectations gaps and variability of returns owing to climatic conditions. We submit that, in order to attract the necessary funding for the agribusiness sector, new listed financial instruments and taxation concessions for listed agribusiness investments are required. Unlisted agribusiness investment products have had a chequered history, largely being driven by taxation motivation rather than agribusiness development and support motivations. We agree that, given the uncertainties of agribusiness investment, taxation benefits are important to attracting investment. But the taxation benefits need to be properly targeted. Consideration could be given to concessions for investing in listed agribusiness similar to those proposed for the mining exploration industry⁶ in order to encourage agricultural production funding, especially during adverse climatic conditions.

3.2 Agribusiness transitioning to public listing

- The role of stock exchanges in facilitating equity capital financing is of primary importance to a modern vibrant economy. The capital structures allowed by, and markets developed by, stock exchanges must be allowed to meet the needs of specific investment sectors. It is no longer the case that one type of market suits all needs. New forms of capital may be required. One option is to allow agribusiness companies to issue non-voting ordinary shares (e.g., preference shares). Differential voting structures have already been adopted by listed agribusiness co-operatives. This could help facilitate capital raisings without ceding control of the listee. It may be one mechanism for retaining ownership in family control, one of the objectives of the ACI Paper.
- In global competition where companies can seek to list internationally, Australia's equity market would be more attractive if entrepreneurs and agribusiness companies could raise equity capital without necessarily having to cede control of decision-making. In a recent article⁷, it was argued that some of regional stock exchanges principal competitors, including NYSE and Nasdaq, permit the issue of non-voting ordinary shares, which affords companies listed on those exchanges a more flexible framework for raising capital.
- APX submits that other (and potentially innovative) classes of shares may be issued instead of ordinary shares. APX seeks to develop listed agribusiness equity capital markets that meet the needs of users with appropriate financial products and services. A market solution would be aimed at maintaining high standards of corporate governance, yet achieve a flexible listing regime for agribusiness companies. Further development of liquidity in innovative equity markets will see Australia becoming a leading light in the transition from venture capital to public listing.

3.3 Agricultural revenue based financing

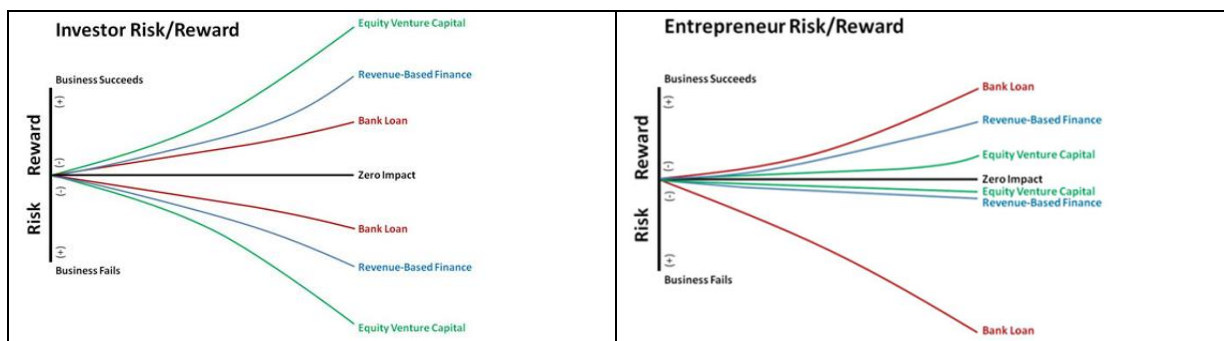
- One major business stress farmers may experience is the risk of rising indebtedness during periods of unexpectedly prolonged drought. This in turn discourages future generations to follow in their footsteps to remain in agribusiness. Innovation in the field of alternative capital funding methods, other than bank loans,

⁶ Exploration Development Incentive: Policy Design, Treasury and Department of Industry Discussion Paper, March 2014.

⁷ "ASX needs a non-voting ordinary share class to avoid becoming a dinosaur exchange", March 24, 2014, Corrs Chambers Westgarth

may need to be considered. This could include, for instance, revenue based financing (also known as revenue capital). While these have historic roots in mining, oil and natural gas, by the mid-to-late 1990s they had emerged as a more deliberate mechanism in an industry-agnostic manner, and have been extended to agriculture⁸.

- The risk return profile of this form of revenue based financing is set out in the following charts⁹:



- Some advantages for revenue based financing rather than equity or debt financing, according to the Revenue Capital Association¹⁰, are:
 - Benefits for investors:
 - no investment dilution, no dependence on exits, no dependence on rapid growth, ongoing liquidity, larger pools of potential deal flow, no conflict over valuation; and
 - Benefits for business owners:
 - no ownership dilution, no personal liability, variable payments, limited payback amounts (capped), no conflict over valuation
- APX has been working with one of its Sponsors on the development of such products. Rather than entitling the holder of a revenue product to interest or to dividends, a revenue product entitles the holder to a percentage of the revenue stream of the issuer until such time as the original investment plus a margin is recovered by the investor. In the context of a variable agribusiness sector, this has the advantages of:
 - Aligning the payments to investors with the cashflows of the agribusiness;
 - not exposing the agribusiness to increasing debt and interest burden (with the commensurate human costs) at times of production stress (for example, during drought);
 - allowing the agribusiness to raise funds without diluting ownership, thereby facilitating family retention.
 - With suitable taxation benefits to investors to accommodate for low revenue returns (or deferred revenue returns) during times of production stress (for example, during drought), private sector financial relief could potentially reduce or replace the demand for government funded financial relief.
 - Allowing state governments to consider emergency assistance funding of agribusiness by way of a revenue structure rather than loans, with back-to-back issuance of listed government backed securities as a way of funding drought relief.

⁸ The Australian National University, 2009, "A Revenue Contingent Loan Instrument for Agricultural Credit with Particular Reference to Drought Relief" – academic support for revenue based financing.

⁹ sourced: "Revenue-Based Funding", www. startupowl.com, who attributed the charts from Growth Science International

¹⁰ Revenue Capital Association, the first trade association representing the industry in the USA, whose mission is to foster greater understanding of revenue capital and its importance to innovation, entrepreneurship and economic development worldwide:



- We acknowledge that a simple revenue product of the type outlined above may not present a perfect solution for industry funding, but it is an example of the type of thinking which, if brought to bear on the listed agribusiness market, may achieve some of the objectives sought by the ACI Paper.

3.4 Agricultural cluster based financing

- What is a cluster? A cluster is a group of enterprises that are similar in terms of their nature of business, stage of production, technology and business volumes. A cluster is characterized by a large number of similar enterprises, substitutable goods/services, selling to the same markets, and almost identical susceptibility to changes in economic variables. It's filling a gap between wholesale banking and retail banking for small and medium enterprises. From a banking perspective, a cluster based approach may be more beneficial in dealing with well-defined and recognized groups, availability of appropriate information for risk assessment, monitoring by the lending institutions and reduction in costs.
- The use of cluster financing where several agricultural businesses are grouped together and their financing arrangement is done on a collective basis allowing them to access credit by amalgamating their credit profile and enhancing their collateral. The flip side is these businesses are joined to the hips and some careful structuring will be required. This can be a simple mini-bond scheme linked to the farm income of the agricultural business via an interposed cooperative.
- For our part, APX will be happy to assist in this type of cluster based financing solution and play a public market utility role by facilitating the listing of such an agribusiness cooperative on the exchange.



4. AGRICULTURAL COMPETITIVENESS ISSUES CONCLUSIONS

- APX recognises that the agriculture sector and downstream activities which make up the food and fibre supply chains are a fifth pillar of the Australian economy and a major driver of economic activity, employment, social cohesion and prosperity for many parts of rural and regional Australia. A transition from an informal agricultural policy to a formal government agricultural policy framework, while reducing the regulatory burden, presents opportunities and challenges for Australia.
- Under the umbrella of the ACI Paper, APX, as with other stakeholders, is privileged to be able to enjoin the Department of the Prime Minister and Cabinet's Agricultural Competitiveness Taskforce to help formulate and better respond to the opportunities presented. Challenges remain, particularly from the impact of the increasing frequency and intensity of adverse weather events, such as droughts. These are a concern to all stakeholders over the long term. The additional increased volatility risk presents a challenge not only to the viability of individual farm businesses but also to investment return for investors and providers of capital. In our submission, we did not wish to dwell in this area, leaving other expert stakeholders to comment. In the area of most interest to us (being access to capital), we are confident that our contributions to the agricultural policy framework will be thoughtfully considered and taken on board in the forthcoming White Paper, and hopefully be influential in the evolution of the Green Paper.