Foreign Ownership

# What is it?

Foreign ownership is becoming an increasingly hotly debated topic for New Zealand, as a the mention of foreign ownership, emotions run high as most people link this phrase to the handing over of precious New Zealand land to foreign owners, and since statements are released such as “ 122 rugby fields of land are being sold to foreign investors each day” one can not help becoming overly concerned. Firstly, to have a clear view of the issue at hand, it is important to fully understand the workings of foreign ownership. Foreign ownership in New Zealand is the ownership of New Zealand Land, assets and businesses, of offshore businesses, investors and companies. Before opposing the idea of foreign ownership in New Zealand it is important to look at the pros and cons, and why it is such a prevalent issue in our nation today.

# Where does New Zealand currently stand with the foreign ownership of land?

In the agricultural sector alone, currently 24 countries have been given approval under the Overseas Investment Act, to invest, and currently are involved in an area covering 154,855ha and a wide range of sectors from sheep farming to viticulture. Some examples are in the forest industry, where currently 72% of all our pine forests are foreign owned by the US, who own around 35%, and Asian companies who own about 12%. Our wine industry is also predominantly owned. 70% of all wine produced in New Zealand is through foreign owned estates.

There is even a lot of international influence in the diary industry in New Zealand. However, diary farms cannot be owned by immigrants, only by permanent residents and New Zealand citizens. However, international companies are allowed to own the diary companies that oversee the farms. For example, New Zealand Dairies at Waimate is Russian owned, by New Zealanders still own the farms. Synlait in Canterbury, which owns several thousand hectares of dairy farms, as well as processing facilities has minority Japanese ownership and now need more equity, which means that the company could switch hands into the Japanese who are wealthier investors.

Though these figures may seem large and very different to what we would expect, it is important to understand why it is currently at the current stage it is at today.

The reason why foreign ownership is so prevalent in New Zealand is majorly due to the vast number of positive attributes that foreign ownership can bring.

# Pros:

* Many people are ignorant and fail to see the positive attributes of foreign ownership of land, which include significant economic growth, the creation of local jobs and the advancement of already locally owned businesses and companies.
* New Zealand is a great place to do business, and there are a lot of untapped possibilities for huge economic growth of businesses, which in turn will create many local jobs. However, to achieve such growth, substantial funds are required, funds which are not found by New Zealand investors, therefore turning to offshore investors is the only option for significant funding. Westpac chief economist Brendon O’Donovan says that foreign investment generally been an integral part of New Zealand’s growth because “we’ve always had a capital shortage and we’ve been very dependent on foreign funding and foreign firms.” Foreign investment is New Zealand currently has a total value of $92 billion dollar, so it is clear to see how this investment has aided the economic growth of New Zealand.
* In the wine industry, a clear example of how foreign ownership advances New Zealand producers, is that wine giants such as the French owned Montana, purchase additional grapes from New Zealand contract growers.
* Foreign ownership also enables the sharing of leading edge technologies into New Zealand industries such as the diary industry, which in turn improves the production rates and efficiencies, increasing profit and therefore the economic health of the entire country.
* There is also a warped general belief towards foreign ownership that all money generated through the company all land head overseas. However this is not the case as the wages of the employee’s, businesses and land stay in New Zealand.
* Foreign ownership can directly and indirectly affect a numbers of factors in our New Zealand Nation. For example, Winston Peters announced that he would ban the foreign ownership of all rest homes as he saw foreign investment as a profit-making scheme from the elderly of our nation. However when we think about what would actually happen if all rest homes were New Zealand owned and funded, we can see some interesting results. With the removal of foreign investors, go build the same number of rest homes as we would with investor’s money, would require New Zealand savings funds from the government. This would mean that less money could be spent I other areas such as schools, communities and roads. Or if we do not use government savings, then fewer rest homes would be built which in turn would raise the price of rest homes, as the demand becomes greater than the availability of rest homes, thus ultimately costing the elderly and their families more than what they are already paying under foreign investment.

# Cons:

However, at the mentions of all these pros, it is needless to say that foreign investment has its flaws as well.

* Foreign ownership of New Zealand land and businesses generate profits that often benefit offshore nations and not New Zealand from the sale of products and services that the businesses and land supply, thus negatively affecting the potential of the New Zealand economy.
* The foreign ownership of land can also potentially limit the access that the public have to certain areas such as fly fishing rivers and hunting ranges, as foreign investment will look to protect their investment and encouraging customers by providing hunting, fishing, and other leisure activities that are not hindered or minimized by the use of local residents. This is currently a concern for outdoor recreation groups, as they want to prevent such policies being put in place that will restrict public access.
* The amount of foreign ownership of land is huge 154,855ha, all of which could be solely used for New Zealand economy if we had the capital.
* Foreign ownership makes it hard for young New Zealander’s to buy land for production purposes, as investors pay top dollar compared to New Zealand investors thus often the land is sold to the foreign investors. For example, Sir Michael Fay’s offer for the Crafar farms of $105.1million was hastily denied, as the Chinese group Pengxin offered $200 million.
* Foreign ownership can create competition with existing New Zealand companies. See Crafar farm example.

# Crafar farm example

Recently the selling of 16 Crafar farms in Canterbury has sparked great deals of controversy and discussion, due to the potential of the Chinese group Pengxin buying all the land for $200 million dollars. Pengxin has little expertise in the dairy farming or dairy processing fields. It hopes to come to New Zealand to set up a partnership with a local processor. The Pengxin group is very well connected with China and knows the market well, therefore increasing the marketability of the product it sells and therefore increasing the profits experienced by diary export and thus boosting the economy of New Zealand through the creation of more local jobs and boosting local business.

However, there is the problem that the majority of profit made is likely to head overseas to the Pengxin group, money that could have all been kept in New Zealand if the Crafar farms were locally owned.

Sir Michael Fay is clearly aware of this one problem, and previously offered $105million for 9 of the Crafar farms before boosting his bid with iwi investors, including the Tiroa E and Te Hape B Trusts from Te Kuiti to $171.5 million for all the Crafar farms. Fay emphasizes how selling the farms to locals avoids the complex procedures and analysis of the Overseas Investment Office, as well as maintaining the farms in New Zealand for future economic gain and growth of New Zealand. Although Fay himself was responsible for the selling of million of dollars worth of New Zealand assets in the 1980’s, he has never sold any production land and still owns the first diary farm he bought back in 1977, as he believes that production land is key to the future success of the New Zealand economy and must remain in local hands.

However, it is important to remember that the Pengxin group will still be under the same laws and regulations as New Zealand owners, and the land will still remain in New Zealand.

# What regulates foreign ownership of land?

Overseas ownership is controlled by the Overseas Investment Act of 1973, under which overseas companies and non-residents had to be approved by the Overseas Investment Commission to buy land over $50 million, a specified area, or has sensitive or heritage value. In 2005 the Act was raised to the threshold of $100 million, and expanded the definition of sensitive land to include all non-urban land.

Currently, this act causes the sale of too much precious land of New Zealand, which is a finite resource and therefore needs to be more regulated before all land is sold.

# Conclusion

Foreign ownership of land is a complex issue as there is a delicate balance required between enough selling of New Zealand land to insure enough investment from big offshore investors to aid New Zealand’s growth, or having too much foreign ownership and stunting the economic potential of New Zealand.

Therefore one must realize all the pros and cons of each individual sale before deciding whether foreign ownership of that particular deal is a good idea or not.