

Security fears deter investors, say academics

Lisa Murray
AFR correspondent

Shanghai | The Australian government is putting Chinese investors offside by stressing national security concerns in the Ausgrid sale before any final regulatory decision has been made, according to two senior Chinese government-linked academics.

Han Feng, from the state-run China Academy of Social Sciences, said it was inappropriate for Australian politicians to be making comments ahead of a decision from the Foreign Investment Review Board, which is assessing bids from China's State Grid and the Hong Kong-listed Cheung Kong Infrastructure.

"This will have a negative impact on the long-term investment relationship and it's not good for the China-Australia relationship," said Mr Feng, a former deputy director and researcher at CASS's National Institute of International Strategy.

"When the [Australian] government stresses national security concerns, it needs to explain to China what the rules are."

Australian Treasurer Scott Morrison earlier stressed security was the "primary consideration" in assessing the bids for a 50.4 per cent stake in Ausgrid, the country's biggest electricity distribution grid. He signalled the



Liu Zhenya, president of the State Grid Corporation of China.

federal government would be prepared to go against NSW Premier Mike Baird to block the sale.

Wang Zhenyu, from the China Institute of International Studies, a think tank attached to the Foreign Ministry, said Mr Morrison's emphasis on national security was an "investment barrier" for Chinese companies.

"In my view, Australian politicians make these comments based on domestic politics rather than economic considerations," he said.

"This would create negative sentiment among Chinese investors looking at Australia because it suggests their investment is not welcome. This shows the Australian government's inclination not to support Chinese investment."

Security analysts have raised concerns about the bid from State Grid given it is a state-owned enterprise and has strong links with the Communist Party and the military at a time when Beijing is adopting an increasingly assertive foreign policy stance.

While CKI is listed in Hong Kong and controlled by billionaire Li Ka-Shing, analysts have also pointed out Beijing's growing influence over the city government and its big corporations could be a potential risk.

"These national security concerns are targeted at China and I would describe them as an investment barrier," said Mr Wang. "This is discrimination against investment from China."

Peter Jennings, executive director of the Australian Strategic Policy Institute, recently said the federal government needed to take into account the ability of so-called "malign actors" to shut down critical infrastructure by means of offensive cyber-attacks.

However, James Laurenceson from the Australia-China Relations Institute (ACRI) at the University of Technology Sydney, said that State Grid, which is attracting the most concern, already owned electricity distribution assets in Victoria and South Australia and had been assessed by FIRB.

He also points out the only bidders for Ausgrid are Chinese and if the sale was blocked it would be a big economic loss for NSW.



The Baillieu family's homestead and (below) the 4953-hectare rural property in Ballan Road near Melton.

Baillieus sell to Chinese for \$100m

Exclusive

Larry Schlesinger

China's Fucheng Group has acquired a huge swath of Melbourne's western urban fringe after buying the last remaining parcel of the Baillieu family's Woodhouse Station for about \$100 million.

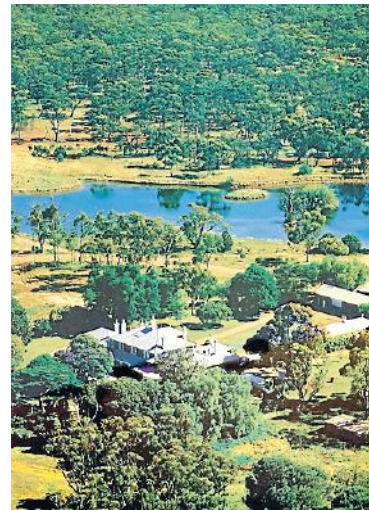
The 4953-hectare rural property in Ballan Road near Melton was put up for sale two years ago by the Woodhouse Pastoral Company, whose shareholders include the Baillieus' investment vehicle, Mutual Trust.

The trust was set up by patriarch William Lawrence Baillieu, who built the foundations for the family's \$568 million property fortune during the Melbourne land boom of the late 1880s.

Now amidst a new Melbourne land boom and the emergence of super-wealthy Asian land barons, the family have sold the remaining portion of Woodhouse Station to Fucheng Group, a privately owned company led by self-made Chinese agribusiness billionaire Li Fucheng.

According to *Forbes*, Li Fucheng & Family are worth \$US1.2 billion (\$1.58 billion) with business interests spanning cattle breeding, beef processing, real estate and funeral services.

In September, Fucheng Group acquired the 31,000-hectare cattle-fattening property Woodlands for \$28 million from London-listed M.P. Evans.



Chinese-backed developers have also been active in Melbourne's land market with Dahua and Ouson Group among those acquiring large parcels alongside deals by ASX-listed Peet and big private local players like Satterley Property Group and Central Equity.

Driving it all is population growth and forecasts that Melbourne will need to house an additional 3.4 million people during the next 35 years as its population grows to 7.7 million.

Victorian valuer general Robert Marsh alluded to the \$20,000-per-hectare sale of Woodhouse Station recently, saying it would not be worth "anywhere near that amount" based on

its use and labelled the Shire of Melton as "what [land] speculation looks like".

The Baillieus bought Woodhouse Station in 1947 when it was a 7500-hectare cropping and grazing property.

A 1250-hectare portion is under development as the Eynesbury Estate with Malaysian-backed Hyde Property acquiring the remaining undeveloped portion of Eynesbury for \$64.5 million from Woodhouse Pastoral Co and joint venture development partner Villa World last year.

The remaining 5000-hectare holding, 37 kilometres from the centre of Melbourne, was offered with a concept plan for a "knowledge city" built around education, food production and energy alongside the potential for future development of up to 20,000 residential lots.

Now operating as a cropping and grazing property, Woodhouse Station was marketed by Frank Nagle and Andrew Egan of Biggin & Scott Land with KPMG's Stephen So and James Brennan acting as transaction managers. All declined to comment.

The *Australian Financial Review* understands the acquisition has already been approved by the Foreign Investment Review Board.

Its present zoning allows for agricultural and conservation use with more than 1300 hectares to be acquired by the Victorian government for native vegetation offsets.

Sale of Business and Assets

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From page 1 China 'spies' put \$10b power sale at risk

former senior Defence Department official and the managing director of consulting firm Strategy International.

"This is not a figment of someone's imagination. It takes a big leap of faith to say there is no security risk [from selling Ausgrid]."

Former Ausgrid chief George Maltabarow said critics of State Grid Corp's bid were "xenophobic" and security threats could be resolved by the buyer.

"I don't really believe that the security concerns are really justified and some of it seems to be just plain xenophobia to me, populist xenophobia that you do get from some politicians," Mr Maltabarow said.

"The idea that somehow the governance of the company is going to be result in security being compromised I think is just pathetic. Quite frankly, if

the Chinese wanted to hack into the Ausgrid systems, they don't need to own it."

Former prime minister Tony Abbott added his voice to the debate on Monday, saying he was not opposed to foreign investment, but there should be a way of selling the grid that does not cede control of the asset.

Ausgrid, which has been state owned for 112 years, supplies electricity to Sydney, the NSW Central Coast and the Hunter Valley. It has more than 200 large electricity substations, 30,000 small distribution substations, 500,000 power poles and almost 50,000 kilometres of electricity cables.

Deakin University Research Fellow Shihanur Rahman, who researches grid cyber security, said it was entirely possible for a grid to become a target if it was sold to a foreign government. "For the data that is stored in a secure database, what we called secure, the existing security is not sufficient," he said.

Knocking out one of the bidders could reduce the amount the NSW government gets.