

Submission to "Inquiry into agribusiness managed investment schemes"

I am prompted to make this submission, in response to a comment attributed to Mr Bernie Ripoll MP, in the Media Release dated Wed 27 May 2009. Mr Ripoll says, in part, *"We need to understand the motivations for people getting involved in these schemes, including the role played by the taxation treatment of MIS...."*... with particular focus on terms of reference:

7. the level of consumer education and understanding of these schemes

I am an investor in Timbercorp eucalyptus and horticulture projects; and a shareholder.

I became aware of Timbercorp in 1996 when the company's WA sales manager visited Karratha. In 1998, as an employee of an accounting firm, I had an opportunity to participate in an Advisors information tour of Timbercorp eucalypt plantations in the south-west of WA; and Bunnings seedling nursery and timber-mill. I was looking at the project from a consumer perspective... not as an advisor. Three other professional accountants in the firm (the principal is my husband) had done a similar tour the previous year, and carried out their own due diligence).

I was extremely impressed with what I saw and learnt. I asked questions of many people: Timbercorp's -Business Development Manager; Administration Manager; the ex-farmer now engaged to source and procure land; the nursery-men, and other independant professional advisors on the tour.

My overwhelming impression of Timbercorp, was of a team of people, passionate about what they were creating, and with a commitment to excellence. On my return, I wrote a report for my employer.

My husband and I invested in 1999 Timbercorp Eucalypts project. In 2001, we "diversified" and invested in the Timbercorp Olive Project. We also had an opportunity to participate in an advisors tour of the Olive and Almond projects. I was similarly impressed with the dedication and passion of the team at the olive grove, and the Select Harvest team, managers of the Almond projects.

M. Slee

For many years, Timbercorp hosted an annual Growers information evening in Karratha. These evening's were well attended, and Growers asked lots of questions. In addition to the Grower updates issued by Timbercorp, I also read frequent independent investment reports, and was confident that Timbercorp were ethical and competent managers, who researched the market and opportunities, and secured forward sales before launching a project.

The horticulture projects were destined to fulfill a demand by providing quality, and healthy, food produce. As Timbercorp diversified their product offering, we diversified our portfolio with investments in Almonds, Table Grapes and Citrus projects. At all times, I was aware that as Growers, we were "in business".

Eucalypt investment - I felt our risk on the eucalypt plantations to be minimal. I understood I would be required to make annual payments (insurance, land rent and management fees) for this project... and similarly, Timbercorp were generating an ongoing revenue stream. As the projects were contributing to the government's 20/20 strategy, I felt there was an implicit endorsement of the worthiness of the under-lying product.

Some media 'spin' implies that the tax deductible nature of the investments means investors are not out-of-pocket at all! At least 50% of all investment is still directly incurred by the investor who does not receive a return on investment for 10-12 years. The tax deductibility of payments for my share in establishing and maintaining plantations had made the investment attractive and affordable during the decade I *have waited* to receive a return.

Horticulture investments – When I invested in the horticulture projects, I felt I had become "a farmer", and the major risk in farming, in my view, is the unpredictability of the weather. I was aware Timbercorp projects utilized leading edge technologies in terms of irrigation and crop management; and that they had constructed massive dams for water harvesting, thus managing the risk far better than could be achieved by a small landholder/grower. Timbercorp horticulture projects, along with the rest of the Murray/Darling 'dependants,' have been subjected to the extreme adverse outcomes of prolonged drought. It was the very nature of pooled investments, I felt, that gave the

projects, and the horticulture industry, its strength – minimizing the risk that each grower is exposed to, and pooling the financial resources to make meaningful investments in developing the products, and being able to produce the quality and quantity, demanded by produce buyers.

These projects were expected to become cash-flow positive within a few years. The considerable cash-commitment I have made to these projects was, again, eased (but by no means negated) by the tax deductibility of the investments. My investment strategy had been to develop long-term ongoing (retirement) income streams.

The industry - As Growers are “in business” I would *expect* costs incurred in generating a taxable income, to be tax deductible. I found it quite disconcerting when the Australian Taxation Office sought to dis-allow deductions. Although the Court ultimately ruled in favour of Growers, I believe this case wasted valuable resources (financial and personnel); caused considerable stress for many; and weakened the previously good-standing Timbercorp had in the market place. The ‘market’ quickly reflected its confidence, or lack thereof.

The logic - There is a logic implicit in MIS, indeed, the same logic that underlies government, by the people.... *the whole is greater than the sum of the individual parts.* When I read “how complex” Timbercorp was, I felt there was distortion of logic - it is extremely logical that each Timbercorp project, would be contained within a discrete entity. When I read that Timbercorp liabilities considerably exceeded its assets, I am reminded of the logic that the value of liabilities is fixed and quantifiable, whereas the value of assets is at the whim of the economy, and subject to significant fluctuation. The logic is that bankers had felt the value of the assets was sufficient to loan against, and then, when global confidence was shattered, the same bankers deemed the assets to be of insufficient value, and consequently, at this stage, assets will either be sold at fire-sale value, or left to wither on the vine, and their true value will never be ascertained.

Benefits – on pages 4 and 5, I have listed below what I saw as being the benefits of “managed investments” based on my investments in Timbercorp (thus excludes companies and product offerings I’m not familiar with).

Forestry (Eucalypts)– benefits...

Farmers

- generates "off-farm" type income
- adds value to otherwise non-productive tracts of land
- reduces salinity

Growers

- diversified retirement income (not solely reliant on superannuation)
- shared (reduced) risk
- contribution to the nation's welfare

Government/Taxpayers

- self-funded retirees – reduces the strain on pension payments
- long term income tax revenue exceeds short term income tax expense
- export earnings
- privately funded infrastructure (eg shipping facilities)
- increase direct employment opportunities
 - employment opportunities created in rural regions
 - highly skilled, and un-skilled
 - blue collar and white collar
 - employment opportunities in cities
 - researchers, and administrators
- increase in in-direct employment opportunities, particularly in regions
- contribution to Federal Government 20/20 Plan
- privately funded research and development
 - silva-culture
 - infield harvesting and chipping

Horticulture – benefits

Farmers get the spin-off of

- privately funded research and development
- benefit from increased demand for guest workers
- able to sell otherwise marginal land

Growers

- diversified retirement income (not solely reliant on superannuation)
- shared (reduced) risk

contribution to the nations welfare

income stream (cashflow positive) in a short period of time

long term investment = long term income stream

Government/Taxpayers

increase employment opportunities

employment opportunities created in rural regions

skilled and un-skilled

blue collar and white collar

employment opportunities in cities

researchers, and administrators

increase in in-direct employment opportunities, particularly in regions

self-funded retirees – reduces the strain on pension payments

long term income tax revenue exceeds short term income tax expense

export earnings

food supply

export capacity could be utilized to feed our own nation

option to reduce/eliminate imports from overseas (especially from countries that can't feed their own population)

production of healthy, environmentally friendly foods - Olives, Almonds, Citrus, Avocado, Table Grapes, Mangos

privately funded research and development

improved varieties

water conservation

use of drip irrigation, vs highly wasteful open channels

large capacity on-orchard dams

value-added – olive-oil production industry

In its deliberations, I would ask the Parliamentary Joint Committee to consider MIS, that goes by another name... the live-stock sale yards in New South Wales/Queensland, that are owned and managed by a superannuation fund. Surely, a superannuation fund is an investment manager; and in this specific instance, is managing an agribusiness investment.