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Inquiry into the Development of Northern Australia

Submission by

Integrated Food and Energy Developments Pty Ltd (IFED)

Author: David Hassum

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1 Introduction

This submission has been authored by David Hassum, co-founder, shareholder and Director of Integrated Food and Energy Developments Pty Ltd (IFED). IFED is the proponent for a very large scale greenfield development of irrigated agriculture, including primary processing, in the Gilbert River region of North Queensland - the project is called the Etheridge Integrated Agriculture Project (EIAP). The EIAP is the most progressed and viable large scale agribusiness development opportunity in Northern Australia.

The EIAP is a $2bn development that will include: 65,000 hectares if irrigated cropping land, large scale water capture and storage infrastructure and primary processing facilities on site.

IFED was been working on the EIAP for over 2 years. We have an intimate knowledge of the opportunities and challenges associated with greenfield development of large scale, intensive agriculture in Northern Australia.

Over the last 2 years IFED has achieved a number of major milestones including;

- Reaching a negotiated agreement with five land owners that secures 326,000 hectares under long term options;
- Completion of detailed technical and commercial feasibility analysis;
- Negotiating a "Development Protocol" for a water allocation with the Queensland Government; and
- Declaration of the project as "Coordinated Project" by the Queensland government Coordinator General.

The comments in this submission are drawn from our hands on, practical experience in trying to get a major project off the ground in Northern Australia. Further information about the EIAP is included in the submission.

2 Context and Assumptions

The submission is written in the context of IFED's experience with the EIAP i.e. North Queensland and the Queensland government. IFED is an agribusiness and as such this submission has an agricultural focus, although some of the issues discussed and suggestions presented herein are equally relevant for resources, tourism and other developments in the North.

State and Federal governments are budget constrained. Accordingly, it is an underlying assumption of this submission that there is very limited government money available to fund development in the North and therefore any development will have to be privately funded. It is our view that private funding of large scale agricultural developments in Northern Australia is entirely possible if the right incentives are in place to entice and reward high risk, patient capital and the regulatory framework and approval processes facilitate, rather than hinder, the project.

3 Terms of Reference

From Joint Select Committee on Northern Australia:

The Committee to consider policies for developing the parts of Australia which lie north of the Tropic of Capricorn, spanning Western Australia, Northern Territory and Queensland, and in doing so:

- *examine the **potential** for development of the region's mineral, energy, **agricultural**, tourism, defence and other industries;*
- *provide recommendations to:*
    - *enhance trade and other **investment** links with the Asia-Pacific;*
    - *establish a conducive **regulatory, taxation** and economic environment;*
    - *address **impediments** to growth; and*
    - *set **conditions** for private investment and innovation;*

- *identify the critical economic and social **infrastructure** needed to support the long term growth of the region, and ways to support planning and investment in that infrastructure.*

4 Agricultural Potential

The CSIRO recently completed a study into the agricultural potential for the Flinders and Gilbert river catchments in North Queensland. That study, referred to as the Flinders and Gilbert Agricultural Resource Assessment (FGARA), confirmed the enormous potential for irrigated agriculture in the region, particularly the Gilbert catchment.

Extracts from the CSIRO report:

"The catchment has the theoretical potential to produce around 7 million tonnes of grain per year with a gross value of over $1.8 billion."

*"The results of this analysis indicate that very large areas of the Gilbert catchment **(1 to 2 million ha)** are moderately suitable (class 3) for a wide range of crops and irrigation methods."*

Since the 1950's, the Gulf Savannah region in North Queensland has been recognised for its enormous potential for large scale irrigated farming due to its: climate, soil, topography and abundant and reliable water.

IFED's own detailed commercial and technical analysis, including independent hydrological modelling, has confirmed the potential.

The potential for large scale development of intensive agriculture in the Gilbert River catchment is real!

5 Greenfield Projects – Scale & Integration.

Most of the areas in Northern Australia suitable for large scale agricultural development are remote with very little supporting infrastructure such as; water, local primary processing and logistics. Therefore, for agricultural developments of any real significance and permanency to occur in

Northern Australia they will need to be large scale, greenfield projects sufficient to support investment in infrastructure such as water, roads, energy, primary processing plants and port facilities.

Real, transformational and enduring development, from which the broader community and economy will benefit, will not come from small scale, fragmented, stand-alone operations. The latter do not have the scale and capital to build the required infrastructure. Policy, regulations and mindsets need to change to facilitate major projects. The potential for the region will not be realised if we continue to do what has been done in the past, particularly in an environment where government cannot afford to fund the infrastructure.

Greenfield developments by their nature are high risk, long-term ventures. The project establishment, including regulatory approvals, takes years and significant funds. Furthermore, proponents of these projects in most cases will not be the registered owner of the land, but may have control of the land by way of formal option contracts. For example; IFED has secured and paid for long-term option contracts over the land needed for the EIAP, but it is not the registered owner of the pastoral leases. IFED will settle on the land once the project is approved and construction funding is secured. Nevertheless, IFED will expend $15m and over three years just getting to that point. The current regulations in terms of water, tenure and development approval are geared towards dealing with the landowner and do not accommodate dealing with a proponent, with a genuine commercial interest in the land, but who is not the registered owner.

It will take over 3 years and $15m just to get the EIAP through the design and regulatory approval phase, with a further 3 years for construction and another 2 years for financial returns to begin. That's eight years before the founders see a return. Working on the assumption that there is no government funding available, these projects have to be seeded by high risk tolerant, patient private capital. Finding private capital for these ventures is extremely difficult due to the high level of uncertainty and lengthy time frames associated with the approval process. The existing regulatory framework and tax regime are not conducive to projects of this nature.

Access to large amounts of high risk tolerant, patient private capital is a major impediment to realising the potential of Northern Australia due to the high risk and long return timeframes. The Federal Government needs to consider tax structures and other incentives to entice private capital to support projects in North and reward them for the risk.

Example – the EIAP

The Gilbert River system has long been recognised for its potential for large scale irrigated cropping due to the reliability and abundance of annual water flows, the topography, the soils and the climate. The main impediment to development is the region's remoteness. Because of this remoteness, for development of any real consequence to occur, primary processing (e.g. cotton gin, sugar mill) of the agricultural production must be done in the region. Long distance transport of raw production (e.g. sugar cane, cotton, etc.) to existing primary processing facilities is not commercially viable. This issue is evidenced by the cotton growers in the Flinders River region who need to send raw cotton to Emerald for ginning which undermines the commercial viability of the crop.

In order to realise the potential of the region, primary processing facilities must be built near the cropping zone. To be commercially viable, primary processing facilities such as a sugar mill need to be built and operate at an economic scale. Furthermore, surety of feedstock is critical in justifying the initial investment in a primary processing facility and in its ongoing commercial viability. To ensure sufficient and reliable feedstock, a minimum level of water and cropping land is crucial, below which the whole development is not viable. In other words, for anything of any real

consequence and long-term viability to occur in the region it needs to be done at scale, integrated along the value chain and underpinned by sufficient water and land in the operator's control to guarantee feedstock.

Lessons from the Ord River scheme. One of the reasons the original sugar mill in the Ord River scheme failed was because it did not have control of water and cropping land sufficient to ensure feedstock supply. Water and land were allocated in the traditional way, to multiple independent farmers. Production from these farms was variable and unreliable. This fragmented ownership of land and water resulted in the mill being mothballed. Recognising it mistakes, the Western Australia government has now ensured that the mill operator controls sufficient water and cropping land to ensure feedstock for the mill. This change in policy will underpin the development of a viable sugar industry in Western Australia, with flow through benefits to the broader region.

6 Water - Allocation Process

Water is the key. Without sufficient water to underpin crop production, development is not viable. The current water allocation regulatory framework in Queensland is based on a traditional model of managing the water allocations in a river system across multiple existing farmers. Current regulations and allocation processes do not contemplate, nor accommodate, large scale greenfield developments and their inherent challenges such as raising capital and regulatory approvals. Indeed the current regulatory framework is a hindrance to progressing projects such as the EIAP.

In the resources sector the approval pathway is clearly defined under various Acts. There is certainty about access to the resource if the regulatory process is followed and the conditions there-in are satisfied. That is not the case in the development of large scale greenfield agricultural projects where the principle resource is water. The regulatory approval process is time consuming and expensive. There is no certainty that, even if a proponent does follow the existing assessment process and satisfy the conditions there-in, sufficient water allocations will be forthcoming. This uncertainty of process and outcome is clearly a significant impediment in raising the capital required to fund the regulatory approval process.

The EIAP has now been declared a "Coordinated Project" by the Queensland. The Coordinated Project approval process is a well worn path, with clear steps and prescribed timeframes, designed to help streamline the approval process for significant projects. However, under current water allocation regulations there is no linkage between the approval process and a water allocation. It was conceivable that IFED could have achieved development approval though the "Co-ordinated Project" process and still not obtain the water allocation required for the EIAP to be viable. Clearly this was an unacceptable risk for investors. To overcome this issue IFED negotiated a "Development Protocol" with the state government that creates a linkage between the "Coordinated Project" approval process and a water allocation. Further work is needed at a regulatory level to accommodate projects such as the EIAP and develop a more robust and commercially acceptable process.

Without clarity of process and certainty of outcome if that process is followed and conditions there-in are met, greenfield projects and integrated business models as contemplated in the Queensland government's 2040 strategy paper for agriculture will not be realised.

Fragmented vs Concentrated Ownership of Water

Fragmented ownership of water in remote regions such as the Gilbert River delivers a negligible outcome in terms of economic benefit and job creation. To maximise the "jobs per megalitre"

created by water allocations and deliver broader regional economic benefits there needs to be sufficiently concentrated water ownership to underpin large scale development including water infrastructure and primary processing. The industrial infrastructure created by the EIAP, which can only be facilitated through concentrated and large-scale water allocations, will deliver significantly greater benefits to the broader community than fragmented water allocations.

There is sufficient water in the catchment to meet the aspirations of the Gilbert river irrigators and IFED. Other farmers in the region will benefit from the infrastructure, outputs and market created by the EIAP.

In determining specific allocations the Government should take into account the relative merits, in terms of the economic benefit to the broader community and State, of competing applications. A key risk to development in the North is that outdated ideology and past political expediencies that focus on distributing water to a small number of farmers will undermine large developments from which the broader community would benefit. Politicians must consider the "greater good" argument when considering water policy and specific allocations. The nature and extent of water allocations is a policy decision. The current process of tendering for water allocations only caters for existing farmers and is an impediment to large scale, greenfield development, involving multiple properties and an external proponent.

There is market failure brought about by outdated policies and regulatory processes that hinder the development of large scale irrigation projects in the North.

7 Capital

Based on the assumption that development of agriculture in northern Australia will, in the most part, need to be privately funded, where will the capital come from? A major impediment to development in the North is access to capital, particularly seed capital to fund the early stages of a project's establishment. This issue is made even more difficult by the high risk, long-term returns and often low yields associated with agribusiness.

On a positive note, there are large amounts of capital, particularly from overseas institutional and strategic investors, looking to invest in Australian agriculture. Investment into Northern Australian agriculture is seen as a surrogate investment into the Asian growth story and growing global food demand thematic. The large institutional investors are looking for scale and depth and typically invest in the hundreds of millions of dollars. Australian agribusiness, particularly pre-farm gate, is highly fragmented. There are very few existing investment opportunities in Australia that deliver the scale and depth sought by the major international agriculture investment institutions.

Unfortunately domestic institutional investors have very little exposure to Australian agriculture. More needs to be done to entice the Australian domestic capital markets (e.g. Super funds) into Australian agriculture. Projects that deliver scale and depth must be created, and supported by attractive tax structures, to entice the domestic capital markets to support Australian agriculture.

Given the high risk nature on Greenfield developments in the North and the difficulty in finding early stage seed capital for them we need tax structures and incentives that will attract and reward patient, risk tolerant capital. In particular, in the absence of increased investment into agriculture by our domestic capital markets, we need to attract capital from overseas institutional investors. Our current tax regime is an impediment to attracting large amounts of capital to fund Greenfield developments.

The following are provided as examples of structures for other sectors that have been used to attract patient capital.

Early Stage Venture Capital Limited Partnerships (ESVCLPs). An ESVCLP is a tax structure introduced to entice early stage risk capital into emerging technologies. Money invested into ESVCLPS is not tax deductible on the way in but returns from ESVCLPs are tax exempt in the fund. The ESVCLP program is aimed at stimulating Australia's early stage venture capital sector. It makes available to fund managers that pool investors' capital a world class structure for venture capital funds.

- A venture capital fund registered as an Early Stage Venture Capital Limited Partnership receives flow-through tax treatment—that is, it is not a taxing point.
- Investors (limited partners) in an Early Stage Venture Capital Limited Partnership are exempt from tax.
- The manager is entitled to claim their carried interest in the fund on capital account rather than revenue.

Managed Investment Trust – MITs were introduced to attract patient capital, particularly from overseas investors. MITs allow for reduced withholding tax on distributions to overseas investors. Agriculture developments such as the EIAP do not fit the eligibility criteria for the current MIT regime. However the concept of withholding tax concessions should be adopted for overseas investors supporting large scale greenfield development in Northern Australia.

Drawing on these examples the Government should consider introducing a tax structure that helps attract large amounts of capital to fund developments in the north. This concept is further developed below.

To establish a project there are roughly three phases of funding:

1. Initial seed funding – project establishment:
    a. To explore the concept, identify and secure land, preliminary feasibility study;
2. Pre-construction Phase;
    a. Regulatory approval process, including an Environmental Impact Study;
    b. Capital raising activities;
    c. Concept development – preliminary engineering, financial modelling, technical analysis
3. Construction Phase.

Phases 1 & 2 are high risk. Investments into these phases should be tax deductible on the way in. Phase 3 is moderate risk. The investment should not tax deductible – but future returns should have tax concessions – e.g. flow through tax entity, low withholding tax for overseas investors.

Concept for discussion: the following concept is presented for discussion:

"Northern Agriculture Development Trust" (NADT)

Eligibility criteria (for discussion):

1. Capital Expenditure must exceed $500m;
2. Expenditure must include enduring infrastructure (e.g. water storage) and / or primary processing facilities (e.g. cotton gin, sugar mill, packing sheds);
3. Must be Greenfield – (e.g. conversion of grazing country to intensive irrigation); and
4. Proponent must have a legal interest in the land (e.g. an option agreement).

No restrictions of spread of investors – i.e. no minimum number of investors. It is a single project fund.

Tax incentives:

1. Initial seed and Preconstruction Phase capital is tax deductible to the investor on the way in;
2. It is a flow through tax entity (i.e. a Trust);
3. Tax concessions on withholding tax on cash distributions to overseas investors; e.g. 10%
4. Tax concessions for founders / managers – e.g. carried interest is capital gains tax free;
5. Indexation of carried forward losses and concessions on change of ownerships provisions for preservation of carried forward losses; and
6. Concessions and tax deductibility are retrospective for existing projects.

8 Indigenous Involvement

To help bridge the early stage financing gap and take direct action on development in the North and indigenous employment the government should consider assisting the local indigenous group take an equity position in the project. The cash could be provided to the local indigenous community by way of a grant or non-recourse, low interest loan. The source of these funds being existing indigenous employment programs. The cash is then used by the local indigenous community to buy equity in the project. The cash would be repaid by the project through the compensation associated with conversion to freehold. Thus the community retains an equity interest in the project but a zero cost.

This policy would achieve a number of goals:

1. Help get the project off the ground which will ultimately deliver job opportunities for the indigenous community;
2. Create a sense of genuine involvement and ownership in the project for the local indigenous community; and
3. Deliver enduring financial returns to the indigenous from profit distributions.

IFED is exploring this concept with the Ewamian people and the federal government.

9 Land Tenure

Land tenure is another major impediment to attracting private capital to fund large Greenfield projects. Most of the land in Northern Australia suitable for agricultural development is pastoral leases. There are existing restrictions on corporations holding pastoral leases. Furthermore, private capital is reluctant to invest large sums of money on infrastructure on land that it does not own as freehold title. Tenure issues need to be resolved if private capital is expected to fund large agriculture project that include enduring infrastructure. There needs to be a clear pathway to freeholding land that is be used for major projects and on which enduring infrastructure such as water capture and storage systems and primary processing plants will be built. The process and costs, including compensation, associated Native Title and conversion to freehold should be more structured, with clearly defined timeframes and resolution mechanisms. The current process, in terms of timeframes and costs is uncertain.

10 Infrastructure

Transport & Port Infrastructure

Historically a key impediment to the financial viability of large scale agricultural development in the north has been the tyranny of distance – i.e. the transport and port logistic costs to get product to market. Improvements have been made in recent years, e.g. roadtrain access to Townsville port, but further work is required.

Specifically is relation to North Queensland the viability of the port of Karumba should be explored. Karumba is a problematic port due the shallowness of the Gulf, lack of logistics infrastructure and occasional access issues during the wet season. Due to its shallowness, Karumba is a transhipment port, which adds costs. But Karumba has a number of advantages over eastern ports, namely:

- easier access by road from North West Queensland,
- reduces ship traffic through the Great Barrier Reef,
- proximity to major markets (e.g. Indonesia). E.g. Sea travel distance to major sugar refineries in Indonesia is reduced by 1,000km if using Karumba vs Townsville. Indonesia is the world's largest importer of sugar.

Government assistance will be required to develop and maintain the road infrastructure required for roadtrains to get product to port. A North Queensland rail network, linking Karumba to major regional centres should be investigated as a long-term option.

Water Infrastructure

With conducive policy, regulations and tax regimes large scale water infrastructure could be privately funded. IFED proposes to build substantial flood water diversion and storage infrastructure.

Energy

Energy will also be an impediment to some developments. Fortunately the EIAP will generate surplus energy from the co-generation attached to the sugar mill. The EIAP will be able to supply renewable energy into the grid.

11 Labour

By its nature, development in the North is typically in remote locations. Attracting labour will be an impediment to development of the north. Good government policy is crucial to ensure labour is available for the construction and operational phases of developments. Policy needs to recognise the seasonality of agriculture and the itinerant nature of the work force. Foreign labour will be part of the solution so 457 visas or similar concepts need to be continue. Tax incentives to attract a permanent workforce to remote locations should be considered. Government assisted relocation programmes for unemployed workers should be considered.

12 Conclusions

Conducive Regulatory Environment

1. Develop water policy and a regulatory framework that facilitates, rather than hinders large scale greenfield developments;
2. Adopt water policy that recognises the need for, an importance of, concentrated water ownership sufficient to underpin large greenfield developments;
3. Avoid out dated political ideology and expediencies that focus on fragmented water ownership and adopt policy that recognises the "greater good" that comes from large scale developments that deliver enduring infrastructure and jobs;
4. Consider the relative economic benefits of competing water allocation options;
5. Remove uncertainty in regards to water allocations by creating a more robust link between the outcome of the development approval process and a water allocation;
6. Ensure Terms of Reference of Environmental Impact Studies and other development approval processes are relevant and focus on the critical issues;
7. Shorten the approval process;
8. Pre-approve specific concepts and areas for development;
9. Develop policy and regulations that facilitate labour movements to the project areas;
10. Help the local Shire Council through the development approval process; and
11. Ensure approval processes accommodate proponents who are not the registered owner of the land, but who do have a legally binding interest in the land.

Conducive Taxation Environment

1. Introduce tax structures and incentives that entice and reward early stage investment, including overseas investors, into large greenfield developments – e.g. the Northern Agriculture Development Trust concept discussed above;
2. Introduce tax incentives to attract labour to remote locations;
3. Reduced import costs for construction components.

Conducive Economic Environment

1. Trade agreements – particularly Indonesia, Korea and China;
2. Lower Australian dollar.

Impediments to Growth

1. Existing regulations, particularly in relations to water and tenure do not contemplate or support large Greenfield developments – they are a hindrance;
2. Lack of clarity in the approval process, certainty of outcome and long approval timeframes– make it difficult to attract early stage funding to establish projects;
3. Attracting early stage, risk tolerant patient capital is difficult in the current regime;
4. Potential for local community objections;
5. Infrastructure: inadequate infrastructure for cost effective movement of inputs and outputs, which adds to the cost and erodes financial viability and competitiveness.
6. Labour in remote areas.

13 About IFED and the EIAP

IFED has been established to develop a world leading, large scale, vertically integrated, privately funded, broad-acre irrigated cropping, grazing and primary processing business in the Etheridge Shire, North Queensland, Australia. The business will have an initial focus on producing raw sugar, guar gum, cattle and associated by-products such as: stock feed, energy, ethanol and meat products. Stage 1 of the development project is referred to as: **The Etheridge Integrated Agriculture Project** (EIAP).

IFED spent over 12 months assessing the commercial and technical viability for large scale water capture, water storage, water distribution, irrigated cropping and primary processing in the region. That analysis has been very positive and IFED believes there is a significant opportunity for the development of a profitable, large scale, integrated agribusiness. IFED has identified the prime sites in the region for water diversion, water storage and cropping and has secured and paid for exclusive, irrevocable three year Option contracts over the properties that contain those sites

The EIAP is a $2bn project which on completion will employ 1,200 people, generate $900m in revenues and include:

Farm Land: ~326,000 hectares (806,000 acres) of land roughly split into:
- 40,000 hectares of trickle tape irrigated sugar cane;
- 25,000 hectares of trickle tape irrigated guar bean (rotational crop with sugar cane)
- 20,000 hectares for water storage, distribution, infrastructure and processing facilities; and
- 241,000 hectares of grazing country.

Water Storage and Distribution Infrastructure:
- Flood water diversion infrastructure in the Einasleigh and Etheridge Rivers;
- Off-river water storage facilities holding 2,000,000 megalitres;
- Over 100 kilometres of gravity fed, water supply and distribution channels; and
- Pumping and piping infrastructure for a state-of- the-art trickle tape irrigation system.

Processing facilities;
- A single train, sugar-ethanol mill capable of processing 4.8m tonnes of sugar cane per season and producing 535,000 to 600,000 tonnes / year of raw sugar and 60,000,000 to 100,000,000 litres per year of ethanol;
- A 90 megawatt co-generation plant (expandable if local demand increases);
- A 32,000 tonnes per year modified guar gum processing plant;
- A 400,000 tonnes per year stock feed plant;
- A 200,000 head per year meat processing plant; and
- Biogas treatment plant, water recycling plant and workers accommodation.

Logistics Infrastructure:
- Storage facilities for 250,000 tonnes of sugar, 300,000 tonnes of stock feed and 200,000 tonnes of bagasse;
- Cane transport system; and
- A fleet of purpose built, high efficiency, Heavy Mass Vehicles (HMVs) for sugar transportation.

14 Contact Details

David Hassum
Director
Integrated Food and Energy Developments Pty Ltd

www.i-fed.com.au