

Australian Senate

Submission from Robert Belcher Managing Director Sustainable Agricultural Communities Australia
Impacts and opportunity costs to Australian food production from Managed Investment Schemes.

Thank you for the opportunity to make this submission to the committee on this subject. The issue of Managed Investment Schemes [MIS] has been of great interest and concern to me at a personal, community, regional, national and industry level for the last 11 years. As a consequence I now lead an organisation [SACA] which although now broader in issues, was formed to inform and advocate for the elimination of MIS in the plantation and agricultural industries.

We have played a part in the instigation of reviews of this issue, and I thank the Ministers for their good faith in following through on promises. I attach the last two submissions to reviews [06,08] and ask the Committee to examine how close to the mark we and others were in predicting today's debacle. This begs the question, if warnings are loud, clear and given by many, often, is the system functional if nothing is done until the train crash?

How many within this Parliament know the micro/macro economics of agriculture or for that matter silviculture? How many have a close relationship with the natural resource and wealth creation? How much advice within this place has come from people with connections to industry groups who stand to be the beneficiaries of MIS policies? All the warnings basically turn on these realities.

We note that today's media is consumed by the impacts on investors, as well as the financial and corporate sectors. We think of more importance is the damage done to one of the most strategically important sectors in the Australian economy now and definitely into the future. There is no more efficient or stable agricultural structure than the owner operator model, what has gone on here is a classical example of urban armchair expertise clouded by contempt of the rural and region communities in this country. The dichotomy has never been wider. To put it bluntly those who have pushed the notion that corporatizing rural Australia by tax avoidance schemes [MIS] was an advance, should probably not venture into the real world of commerce.

Yet again I make the public observation that government has not done any market analysis or opportunity costing of these MIS impacts upon the multiple of sectors affected. Was a \$10 billion exercise in picking winners at tax payers' expense able to be assessed for public consumption by the beneficiaries and their "independent experts" without due diligence? Does the Parliament of Australia really understand and believe in Adam Smith's "free hand of the market" or is it all just hyperbole? What is the vision for this country's food contribution to the world population and our national wealth? The damage to the land base both physically, and in cost, as well supply is huge. Most of these developments are situated in high rainfall areas, a land resource of some scarcity on the driest continent on the planet. Other areas severely affected are our core food bowl irrigation areas both by inappropriate corporate expansion into finely tuned commodities with massive oversupply outcomes but also huge purchases of water. The behaviour of MIS has been predatory.

They have enjoyed bi-partisan support via legislation and agreement at all levels of government in all portfolio areas. The thug has been given the keys to the city [including the community bank vault]. Where is the money now? Where is the productive resource improvement?

The conduct of this industry [MIS] has been disgraceful, involving intimidation, bribery, lies, and the corruption of many others including land agents, state bureaucrats, financial advisory services, local government, fire fighting services etc. We can only describe this as a holistic failure of government and the checks and balances that are supposed to offer the community security.

We regularly hear that small/medium business is the engine room of the Australian economy. If this is the case the MIS policies since 1997 have done enormous harm to the engine. [I think even those stunned bunny rabbits attending creditors meetings at the moment would understand this point]. The rhetoric coming from the public sector about free unencumbered market forces allowing efficient allocation of resources to maximize the production process cannot be better evaluated than by this MIS policy escapade. The Australian economy has too few small/medium businesses trying to survive in a highly monopolized vertical industry structure, and as a consequence ultimately the consumer pays. If MIS had not been structurally flawed, food production would have become more expensive, that is, less efficient, poorer quality, but more expensive to the consumer, because food supply would be in the hands of the corporate sector. This is the exact opposite to positive outcomes from increased competition. Corporates do become food producers, some prosper and some don't, but to offer a sector [MIS] advantages all other participants [including normal corporates] cannot compete with is outrageous.

Some common nationwide observable impacts upon the bottom line of food production economics

1. Land price increases commonly double pre MIS activity. Places like the Douglas Daley NT area where properties which made \$1 million 4 to 5 years ago reselling to MIS for \$14 million, or NSW Monaro where over the last ten years due to MIS land has gone from \$250 an acre to \$2000, similarly in the western district of Victoria etc. These grazing land areas cannot absorb this and generate viable returns. Effectively doubling price halves returns, yet it is now becoming obvious that the real, profitable enterprise was the one that has been replaced for example the lamb industry. This pricing strategy appears to have been deliberate if not logical, with the outcome that vast areas of prime dairy, beef, sheep, horticultural, sugar, irrigation, wine, tropical fruit etc having been affected. There appears to be a misconception that these land use changes or redevelopments can be easily corrected, not so. Blue gum plantations in what was always going to be a single rotation loss activity leave enormous rehabilitation costs in their wake. Another example is olive plantations on a massive scale, which have never been profitable and are dependent upon irrigation that is not used by other competitors either domestically or internationally. The long term outcome of non market price distortion [MIS] on core inputs such as land will haunt this country for decades.

2. Water price and availability accentuated by drought [something well factored by existing agricultural industries] has really shown how lightweight the grand plans of the proponents were when faced with the reality of Australian climate variability. Thousands of hectares of almonds or olives requiring constant ever increasing quantities of water defy the art of food production on this continent. The fact that MIS seemed to have an inexhaustible money supply only encouraged them to take the largest share of water traded and impoverish genuinely viable producers. The loss of real food industry producers due to product over supply or inability to pay the bloated water prices

again will cost us all. The forestry plantation development has enjoyed free consumption of water not available to the farming businesses they replaced, on average over Australia they now prevent runoff and ground water catchment in the order of 1.5 megalitres per hectare per annum, which equates to 3000 gegalitres now and according to the 2020 vision ultimately 4500 gigs. This is free [based on a price of \$2500 a meg this comes to \$ 2500 000 a gig or \$11.25 billion total benefit per annum] Areas like the Coonawarra dependent upon the aquifer in SE SA or the Murray Darling basin food bowl are facing the removal of this catchment, so that we can produce wood chips or is it to account for Kyoto? Australian water management problems have been turbo charged by MIS, the whole thing is a disgrace. If Singapore had this resource could you imagine them doing this? I have visited many places in Australia to talk to and assist communities in their opposition to MIS in their area, without fail water is top of the list on negative impacts. Forestry plantations effect neighbours, streams, acquifers and ultimately catchments which in turn effect irrigation. Water trading in conjunction with massive developments and acquisition in irrigation districts has wreaked havoc upon existing owner operator food production in the midst of difficult trading and climatic times. Apart from being very unfair, we are now witnessing the consequences of MIS on food production.

3. Population, Infrastructure and Community Services, have suffered the “kiss of death” when MIS arrives. The evidence is blatant, and whilst MIS advocates Albany in WA and Tumut in NSW as the typical rural regional outcome, we see food producers go en masse across the affected areas with associated jobs, retail, and service demand following. Rural Australia is particularly badly affected, you only have now to look at the loss of medical, educational, and business generating activities which have vanished. It should be noted that to absorb or emasculate existing industries is hardly a step forward, especially given that they were far more profitable than the MIS replacements. The beef industry involving processing based in NE NSW might be a good example to look at, or sugar in QLD, the dairy industry in both western and eastern VIC or perhaps the profound landscape and community changes in TAS, etc. Proper opportunity costing by government should have been done, and when you realise that the revamped MIS act of 1997 occurred as a result of dismal outcomes previously, there can be no excuse.

The enthusiastic complicity of State Governments in enacting “as of right” planning regulations without regard to rural population interests for example decent fire precaution planning or water availability to existing industry or private property rights [which most Australians would expect] has embittered these communities. The at times corrupt “social engineering” exercises attempted by State Governments to claim community consultation but allow their favourite industry to dominate leaves the process without public legitimacy. The inescapable conclusion is that everything was done to destroy food production, the communities associated and replace this with what now has become a disaster. One should never suggest that State Governments do not maintain a constant level of performance! It gets worse with Local Government, perhaps a “root and branch” review might begin to reverse what surely is a dysfunctional system of government.

4. Food production and market competition could be best introduced by a statement made by the Great Southern MIS founder via the Financial Review about 3 years ago where he acknowledged that GS was the largest land holder in Australia in dollar terms and that the vision was to increase this by a factor of five whereby they could effectively control the supply of food. This doesn't leave much to the imagination does it! Do we really have agencies charged with competition and national interest outcomes?

The question of market control and collusion must be seriously addressed; I have regularly been told of such claims by food producers and am under no illusion about the fear these people have. A claimed strategy is for MIS to enter an area start buying out producers and then put the pressure on those remaining. Suggestions that the good prices for properties are about to end, or they will supply the product to supermarkets at below cost are common. Real producers know the parameters of market costs and prices, many assumed that they could not survive long enough for the inevitable to happen, others took the money and ran. The net effect is a significant loss of skilled operators and a paucity of young replacements. We can now see huge resources of land, water and infrastructure committed to hopelessly insolvent food production developments. These could never be profitable, we knew it, but those who do not live in the unforgiving environment of food production had no idea. Food productive capacity thus has been seriously diminished to the long term cost of our national accounts. This is not good timing, to say the least!

Australia last time I looked, was the largest exporter of red meat in the world. Not only is this very important to our national wealth, but also it represents a resource of protein which the world cannot get enough of. [the world's ocean stocks are seriously depleted already] Add dairy production, which again will enjoy long term high value returns to this nation and we are looking at significant high rainfall food industries. All have suffered reduced capacity as a result of non market driven, government sponsored, tax avoidance MIS expansion into plantations for wood chips [approx 2 million ha on the way to 3 million]. The national sheep flock should be of great concern at current levels. I would caution Senators to consider our national interest should this decline continue and or expand into other animal production industries, something entirely possible at present. Core breeding stock is not a concept on the national radar but it should be.

The Australian Wine Industry graphically illustrates how easily arduous long term development with great outcomes can be incinerated by inappropriate market mechanisms [MIS]. Likewise avocados, mangos, tomatoes etc all suffer when MIS enters their market with no market imperative to get the demand/supply equation right. The plight of long term wine grape growers especially those in irrigation areas due to MIS invasion is a meltdown situation. Other commodities affected apart from the above include strawberries, mushrooms, truffles, olives, almonds, walnuts, citrus fruit etc.

Thus meat, wool, dairy, horticulture, viticulture, irrigation, have all suffered what can only be described as one of the worst government inspired policy directions yet seen. We all lose, producer and consumer alike, but this nation cannot afford to squander our natural resources given our financial circumstances.

On a final note, timber trade deficits of \$2 billion are irrelevant if our comparative advantage does not include timber, you do what your resource does best. That's the nature of trade. Further the real deficit is in processed timber product, not volumes of lowest value product.

I suggest Australia's food production must never be treated like this again. The rural and regional communities must now be repaired to facilitate our real productive capacity.