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Submission to

The Treasury

on the

Review of Non-Forestry Managed Investment Schemes

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Growcom submission on the review of non-forestry managed investment schemes

Growcom welcomes this opportunity to provide feedback to The Treasury on the Review of non-forestry Managed Investment Schemes (MIS). We are supportive of the focus on the costs and benefits of MIS from an economic, environmental and social perspective, in particular whether they have a tax advantage; how well they perform; the impact on inputs, the environment and regional areas; and the effect on commodity markets.

MIS have been operating in the horticulture industry since around 2001. Many have been established in Queensland industries including mangoes, stone fruit, strawberries and avocados. There are varying views about the impact of MIS on the Queensland horticulture industry, which will be investigated in our submission.

Growcom understands that MIS participants in the horticulture industry contribute money which is pooled and used in a common horticultural enterprise where investors do not have day-to-day control over operations. These investors can deduct from their taxable income, the full amount of their investment in the first year, with additional tax deductions recurring for several years after that. Furthermore, the Australian Taxation Office (ATO) announced that from 1 July 2008, investments in new non-forestry MIS will be seen as capital investment and therefore not tax deductible (this change in still being challenged through the court system).

Growcom's submission will respond to the issues paper by identifying our overarching position on the horticulture business environment, general comments on MIS, feedback we have gathered over the past few years and a MIS case study that was described to us as having a negative impact on one horticulture industry in Queensland.

Growcom is supportive of the submission provided by the Horticulture Australia Council (HAC), and also encourages the review panel to read the Horticulture Australia Limited (HAL) project report HG06115: Independent Review of MIS Involvement in Horticulture.

1. About Growcom

Growcom is the peak representative body for the fruit and vegetable growing industry in Queensland, providing a range of advocacy, research and industry development services. We are the only organisation in Australia to deliver services across the entire horticulture industry to businesses and organisations of all commodities, sizes and regions, as well as to associated industries in the supply chain. We are constantly in contact with growers and other horticultural business operators. As a result, we are well aware of the outlook, expectations and practical needs of our industry.

The organisation was established in 1923 as a statutory body to represent and provide services to the fruit and vegetable growing industry. As a voluntary organisation since 2003, Growcom now has grower members throughout the state and works alongside other industry organisations, regional producer associations and corporate members. To provide services and networks to growers, Growcom has approximately fifty staff located in offices in Brisbane, Bundaberg, Ayr, Toowoomba and Tully. We are a member of a number of state and national industry organisations and use these networks to promote our members' interests and to work on issues of common interest.

2. About the Queensland horticulture industry

Queensland is Australia's premier state for fruit and vegetable production, growing one-third of the nation's produce. Horticulture is Queensland's second largest primary industry, worth around $2 billion per annum and employing around 25,000 people. Queensland's 2,800 farms produce more than 120 types of fruit and vegetables and are located from Stanthorpe in the south to the Atherton Tablelands in the far north. The state is responsible for the majority of Australia's banana, pineapple, mandarin, avocado, beetroot and mango production. There are 16 defined horticultural regions with a total area under fruit and vegetable production of approximately 100,000 hectares.

The Queensland horticulture industry is:

- A major contributor to regional economies and the mainstay of many regional communities;
- The largest high quality supplier of fresh fruit and vegetables to Australian consumers;
- A diverse industry utilising a range of production methods in different locations and climates;
- A resource base for significant value adding throughout the food, transport, wholesale and retail industries;
- The most labour intensive of all agricultural industries, with labour representing as much as 50% of the overall operating costs;
- An industry with significant links to the tourism industry, providing income for thousands of backpackers and "grey nomads" each year;
- A high value and efficient user of water resources in terms of agricultural production;
- A primary and secondary source of income for many families in regional Queensland e.g. through seasonal work in packing sheds; and
- The site for a number of emerging agricultural industries including olives, Asian exotic tropical fruits, culinary herbs, bush foods, functional foods and nutraceuticals.

3. Policy position on the horticulture business environment

Growcom expects that horticultural producers will be able to operate in a reasonable business environment, with opportunity for fair competition. We believe this environment should have:

- Transparent relationships in the value chain;
- Relationships between suppliers and customers that are not distorted by market power;
- Opportunity for market growth by meeting consumer demands;
- A degree of certainty with respect to regulation and resource access;
- Reasonable cost of doing business; and
- Reasonable sharing of risks and rewards.

We are committed to improving the business environment in which growers operate, through the value chain and the regulatory environment, and by providing pathways to practical outcomes for members, including continuous improvements in agriculture, marketing and business.

4. General comments

Horticulture growers in Queensland offer varying views about the impact of MIS on the industry and their businesses. Growcom is not opposed to MIS in the Queensland horticulture industry, however we do have concerns regarding the use of tax incentives to encourage investment, and the potential market distortions that can result. We are especially concerned with the impact that this can have over long periods of time on the horticulture industry and the rural communities that rely on it.

As mentioned in our policy position above, Growcom expects that horticultural producers will be able to operate in a reasonable business environment with opportunity for fair competition. We are supportive of encouraging investment in horticultural enterprises, as long as this investment is driven by market forces and in a way that ensures the long term sustainability and profitability of the industry.

The issues paper states that contributions to non-forestry MIS have grown rapidly since they were first introduced, except for the 2006-07 financial year. This was the year that the ATO announced that from 1 July 2007 (which was later extended to 1 July 2008) the tax treatment of contributions paid by non-forestry MIS participants would change, and would no longer be tax deductible. This announcement and the associated drop in contributions indicate that investments were driven by the tax incentive, and not primarily market driven. This approach will not promote long term commercial viability or profitability in the horticulture industry.

Growcom understands that MIS were introduced into the plantation forestry industry to enhance investment in order to increase the area of commercial trees to a level that was not being achieved through market demand. Allowing contributions to be tax deductable will more than likely help achieve the desired result. However, there is no apparent market failure in the horticulture industry to necessitate the tax incentive arrangements similar to those that were required in the plantation forestry industry.

Overall, Growcom is not supportive of encouraging investment in the horticulture industry that is driven by tax incentives, as these are likely to lead to distortions in the market. The ATO's ruling should be a positive step towards reducing these distortions, at least for investments in MIS from 1 July 2008.

5. Industry feedback received on Managed Investment Schemes

Over the past few years, Growcom has received varying views from Queensland horticulture growers about the impact of MIS on the industry and their businesses. These views are detailed below.

Neutral views that have been raised with us include:

- MIS that originate from already established horticultural enterprises are unlikely to have additional impacts on the local area;
- MIS are similar to any other commercial horticultural enterprises, however have a different business structure that involves investors with a hands-off approach to the everyday running of the enterprises;
- Oversupply in a certain commodity market can be as a result of much wider issues than investment in MIS alone;

- MIS are unlikely to incorporate business practices that are environmentally unsustainable, as they have the same legal responsibilities as all other landholders.

Positive views that have been raised with us regarding MIS include:

- They have a general positive impact on the horticulture industries in which they participate, in particular on communities that rely on the horticulture industry as an economic driver;
- MIS may be able to achieve economies of scale and as a result increase efficiencies;
- Job creation in rural communities and may also encourage additional seasonal workers/backpackers to visit the area for work, and subsequently spend money in local businesses;
- Access to sufficient funds that allow them to promote new and emerging technologies, larger investments in R&D and innovation, and introduction of world's best practice that may have flow-on effects for other local businesses and the industry;
- Help attract investment to the industry that has been difficult to generate. This may have also helped some industries advance to stages they may not have reached without this investment;
- Marketing efforts and ability to open export markets do not only benefit the MIS;
- Farmers wishing to leave the industry may benefit from improved land prices;
- MIS pulling out of an area can mean that local growers can purchase assets at a reduced price.

Negative views that have been raised with us include:

- MIS distort commodity markets and gain unfair advantages because of their enormous buying power;
- MIS investors do not care about growth of agricultural businesses, long term profits or rural communities as they are motivated to invest by the tax incentives;
- They buy water rights from desperate farmers;
- Inflate land prices due to increased investment in rural areas and increasing competition. This makes it more difficult for local growers to purchase additional land to gain economies of scale;
- Over supply commodity markets as investment in production is driving by tax incentives, not market demand for that particular commodity;
- Growers are forced to compete for labour, making the ability to recruit and retain workers crucial to business success. MIS can offer better opportunities to attract and retain workers, making it more difficult for traditional farmers to fulfil their labour needs;
- MIS projects may be able to provide horticulture products at lower prices than smaller competitors due to their ability to achieve economies of scale and increased efficiencies.

6. Case study

Growcom would like to submit a case study of the business practices of a MIS in Queensland that has been described as having a negative impact on industry. The MIS has been operating for less than two years, however there is speculation that maintaining its current business practices will drive local growers of the same commodity out of that market. It has been stated that the MIS has undertaken a marketing strategy where they sell their product at a price lower than the current market price (for example, the current market price is $20, so the MIS sells the product at $14). If large quantities of produce continue to be distributed at this price, this effectively brings down the market price for all other growers to a level that can be unsustainable in the long term (ie below the cost of production). There is speculation that this business practice of the MIS can effectively "buy the market" by forcing local growers out of producing that commodity, leaving the market open for the MIS to take advantage of.

7. Conclusion

Growcom is supportive of encouraging investment in horticultural enterprises, as long as this investment is driven by market forces and in a way that ensures the long term sustainability and profitability of the industry. Any investment that is driven by other forces, such as tax incentives, has the potential to have long lasting and devastating impacts on the horticulture industry, rural communities and Australia's food security.