



**INQUIRY INTO FOOD PRODUCTION IN AUSTRALIA
- IMPACT OF MANAGED INVESTMENT SCHEMES**

To

Senate Select Committee on Agricultural and Related Industries

Prepared by:-

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Summary

The Western Australian Farmers Federation (Inc) (WAFarmers) has provided a range of comments to the Inquiry into Food Production in Australia since late 2008. The Inquiry's consideration of the impacts of Managed Investment Schemes (MIS), since the collapse of two large scale MIS-based businesses in mid-2009 has provided another opportunity.

This submission supports comments made by WAFarmers representatives at the Inquiry's Perth hearing on July 1st 2009, where WAFarmers was asked to provide additional information on several of the issues discussed.

WAFarmers questions the differential between the intent of MIS investor and manager to that of the non-MIS agricultural business and requests that in making consideration, the Inquiry review the mechanisms that have seen a proliferation of MIS schemes, yet not investment in strategies to assist the profitability and sustainability of the more traditional market-driven Australian farm structure.

Background

The Western Australian Farmers Federation (Inc) (WAFarmers) has had frequent contact with the Inquiry into Food Production in Australia. WAFarmers completed a written submission to the Inquiry in August 2008, appeared before this committee's Perth hearings in March 2009, followed that appearance with an additional submission in May 2009, and further appeared before the Perth's hearing in July 2009 to discuss the impact of Managed Investment Schemes. During the hearing, WAFarmers representatives were asked to provide specific details on the Inquiry's Terms of Reference, including:

- land and land prices,
- water resources and water prices, and
- returns to farmers.

This submission details these issues.

Submission

WAFarmers understanding is that currently there is at least 100 000 hectares of Western Australian land under some form of Managed Investment Scheme (MIS) arrangement. This includes plantation forestry, olives, avocados, wine grapes, stone and citrus fruits.

In keeping with the intent of this Inquiry, WAFarmers has reviewed the impact of MIS on the capacity for Australian farmers to produce food, in a sustainable, viable and affordable manner. Whilst acknowledging the loss of prime agricultural land that occurs under MIS-forestry schemes, examples of MIS impacts, whilst few in number, are mostly drawn from non-forestry (horticultural) industries.

Horticulture Australia⁽¹⁾ identified the key trends in horticulture as the globalisation of supply, the dominance of the supermarket retail model, an increasing demand for better quality product and the increased use of product branding. As such the challenges to the competitiveness of the Australian horticulture sector were identified as:

- Access to global markets
- Labour and production costs
- Supply chains
- Marketing and consumer preferences
- Adoption of R&D and Innovation

The promoters of MIS schemes championed their capacity to address these issues. The reality is however that non-forestry MIS schemes are yet to demonstrate that they can deliver solutions to these on a sustainable level.

Rather, the experience has been that the investor's financial commitment is based more on the tax deductibility of the investment rather than it being linked to the long term profitability of the product, why else would an investor pay the equivalent of \$104 500/hectare⁽²⁾ or \$143 000/hectare⁽³⁾ plus ongoing costs for a mixed mango and stone fruit grove?

There can be no doubt that MIS has been successful in attracting investor funds, and that a proportion of this has initiated some horticultural development. An absolutely critical part of these investments should have been their development on the on the long term commercial viability of

their output, which included processes to deliver a recognised product to market at a realistic price. This however has not always been the case.

1. Land and land prices

Sine appearing at the Perth hearing WAFarmers has attempted to review the impact of MIS on land prices. Anecdotal evidence collected from WAFarmers members establishes that there has been a land price impact however it is difficult to quantify. It should not be unexpected that the development of over 100 000 hectares of Western Australian agricultural land in essentially a ten year period must have a price impact.

WAFarmers draws the committee's attention to the Horticulture Australia⁽¹⁾ study which reviewed the impact of MIS on land use and prices. This 2007 study found that *"it is difficult to draw conclusions of the impact of MIS on the value of land from the data available"*. This was also WAFarmers' experience.

WAFarmers notes that this Inquiry occurs in parallel with the Parliamentary Joint Committee on Corporations and Financial Services' Inquiry into Agribusiness Managed Investment Schemes. A submission to that Inquiry from the Institute of Chartered Accountants⁽⁴⁾ commented *"In many areas of Australia managed investment schemes have resulted in the increase in land prices to the detriment of local farmers who are unable to justify prices offered for land by MIS promoters. The agribusiness managed investment schemes introduce a class of investors who have access to tax-deductible capital sources while traditional rural producers competing against them for productive rural land do not. As a result the market is distorted by a group of participants whose investment drivers are not risk based returns relevant to the particular asset class of the investment but the prospect of substantially deferring taxable income."* WAFarmers suggests that this Inquiry may wish to further investigate this issue with the Institute of Chartered Accountants.

2. Water resources and water prices

Western Australia's water management is different to large areas of the Eastern States in that only a small number of irrigators pay for water access and delivery. Therefore MIS impacts on the 'price of water' may not be as relevant to Western Australia as it is to other areas of Australia.

MIS impacts on water resources is another matter however and one which Western Australia's water managers have not as yet provided for. Western Australia lacks a policy on the allocation of water to plantation forestry and therefore their entitlement under a 'consumptive pool' is yet to be determined. Proposed changes to the management of the water resource in Western Australia, requirements under the National Water Initiative, will require water use by plantations to be included in determining the sustainable level of water use within catchments.

The South Australian government's recently released document 'Managing the water resource impacts of plantation forests - A Statewide policy framework'⁽⁵⁾ is perhaps a template which can be used by our regulators. WAFarmers believes that at this point, the real impact of MIS schemes on water access in Western Australia needs greater evaluation.

3. Returns to farmers

Horticulture Australia⁽¹⁾ commented that *"It should be noted upfront that, at this stage, the actual effect that the MIS horticulture projects have had on commodity prices is very difficult to isolate. This is due to the fact that MIS projects have only entered most horticultural industries within the last*

three to four years and, thus, have had little time to materially affect the supply and demand of commodities (with the exception of the olives and almonds industries, which are dominated by MIS projects)." Similarly Treasury's 2008 assessment⁽⁶⁾ found that "it is difficult to determine the impact of MIS on commodity markets and existing domestic producers".

WAFarmers review of non-forestry MIS plantings in Western Australia (Table 1) is not complete as in some cases the information is unreliable or simply not available. What we have collected however demonstrates the likely impact that these ventures can have on the traditional supply/demand sensitive horticultural supply chain.

WA Non-Forestry MIS Projects		
Industry	MIS Area (Ha)	Total Area (Ha)
Citrus	400	1400
Mango	490	Unknown
Vineyard	890	13000
Avocado	200	1000
Olive	2000	6000
Stone fruit	90	Unknown

Table 1: Summary of known non-forestry MIS projects in Western Australia

The Western Australian citrus industry is a case study of a relatively mature industry which is likely to be impacted by recent MIS entries. The industry has about 200 active growers, the vast majority of these growing five hectares or less of mixed plantings however investment since 2000 has restructured industry and over half of the total planted area is being managed by the 5 largest growers.

An MIS driven development recently announced that its newly built processing facility in Kununurra will process 10,000 tonnes of red flesh grapefruit at capacity⁽⁷⁾, although the 2009 yield was about 1,500 tonnes, of which 600 tonnes was exported with the remainder sold locally⁽⁸⁾. Prior to this development, the average yearly Western Australian production of grapefruit over the last 15 year period has been less than 1000 tonnes⁽⁹⁾. Therefore if this business' export marketing and promotional plans are not achieved, the supply/demand equation for what is a fairly niche product has significant capacity to exceed domestic market demand. This will impact significantly on the price of other available grapefruit, but more broadly, given the high level of substitution which occurs in this price sensitive market, on all fresh fruit lines.

WAFarmers made similar comments on the avocado industry at the Perth hearing, as it is another crop which is still to reach full production capacity in Western Australia.

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