Advisors to Australian Agriculture

MS&A submission

on the proposed new taxation arrangements

for investments in

Forestry Managed Investment Schemes (MIS)

Neither the author nor MS&A have received remuneration or the promise of remuneration of any kind for the completion of this report.

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Executive Summary

- The focus of this submission is to highlight the structural problems of the Managed Investment Schemes (MIS). It is our opinion that the proposed changes to current tax arrangements do nothing to rectify the systemic problems.

- An MIS is an entity by which investors funds can be pooled by a third party on behalf of the investor.

- It is important to highlight that the tax advantages available to an MIS are not available to other investment entities, which may be competing for the same scarce resources.

- Since the 2001-02 financial year there has been in the vicinity of $3.6bn worth of retail investments sold. This represents a compound annual growth rate of thirty-six percent.

- The industry is highly concentrated, with three players accounting for over 50% of the total sales in tax effective schemes.

- The timber industry accounts for over 73% of these schemes with the MIS projects. There is an increasing interest in other more traditional industries by these promoters.

- The current MIS taxation policies are assisting the greatest transfer of wealth since the soldier settler scheme. It is our concern that this is occurring, due simply to the fact that the promoters are able to exploit the tax advantage. These schemes have little if anything to do with profitability of the underlying project.

- It is fundamental to understanding these schemes to clearly see the relationship between the promoter and the investor. The promoters, such as Timbercorp and Great Southern, charge the investor (man in the street) substantial upfront fees to manage a timber lot on their behalf. It is critical to understand that the investor only ever owns the trees. The promoter buys the land from the surplus generated from these massive upfront fees charged to other schemes.

- Current taxation policy is not revenue neutral. We have estimated that the Australian Taxation Office (ATO) forgoes nearly $2,000 per hectare, based on a Mean Annual Increment (MAI) of 20. Even given an optimistic MAI of 25, the ATO forgoes $546 per hectare. This is a direct subsidy that ends up in the pockets of the MIS industry and provides them with an unfair advantage in competing for scarce resources such as land and water.

- Independent forestry advice has shown that charging investors up to $9,000 per hectare is expected to deliver a loss to the investor. Yet due to the government's tax policy the unsuspecting public is induced into these schemes by the availability of the upfront tax deduction.

- We have estimated that Great Southern Plantation charges, published in their 2006 Timber prospectus, are approximately 270% higher than the fees charged by AMP for a retail investment. Based on our estimation we believe that Great Southern Plantation's profit margin has averaged 592% greater than that of AMP. This clearly indicates that Great Southern Plantations fee structures are well outside the norm for a retail fund manager and are making grossly excessive profits. This can only occur due to the current tax policies making the high upfront fee attractive to the investor due to its tax deductibility.

- Given the inflated cost of these schemes, most of this tax revenue went straight to the bottom line of the promoter. John Young, CEO of Great Southern, has amassed a fortune ($184 million), based on the ability to charge excessive upfront fees to schemes that have only a small probability of achieving a commensurate economic return for the investor.

- Our analysis identifies that Government policy, which is supporting the substituting of broadacre or dairy country for forestry, will have serious economic impact on local communities in south west Victoria. In summary, for every 10,000 acres that is substituted the local community, economic activity will be reduce by $27m if it is broadacre country, or $361m if it is currently dairy country.

- A Bramley and Chudlieigh (2000) project, completed for RIRDC, found 'that the overall performance of MIS was mediocre with the poor quality of management and high commissions to promoters limiting returns to investors'.

- An ASIC report in 2003 made the following points:

  - The questionable commerciality of the schemes.
  - At times, the poor quality and absence of disclosure.
  - Occasional inappropriate or misleading advice.
  - Payment of high commissions in excess of norms for retail investment schemes.

- Proposed policy changes must be able to resolve the current failures of the MIS industry, being:

  - Profiteering by promoters at the expense of the Australian taxpayer.
  - Asymmetric information – due to the lack of credible independent and transparent information on the profitability of the project.
  - Lack of accountability of the promoters to achieve profitable outcomes for their investor clients.

- To deliver an outcome that both removes the current capital distortions, investment risk, and this high cost of administration and compliance by the government, we believe the government should:

  - Close down the MIS tax advantages schemes and allow the market to allocate scarce resources efficiently.
  - Legislate that, other than those retail investments that can be considered traditional 'securities', be disallowed to be marketed directly to the retail investor.

- If credible independent analysis can substantiate that the forestry industry has 'special need', then taxation policy should be adjusted to promote long-term profitable timber production and efficiency within the industry. For guidance the same issue was dealt with within the UK industry. The tax incentive was removed from the upfront deduction to a tax break on the final product.

- Our greatest concern with the Government's proposal is point 2. The proposed cap in the first year of tax deductibility to $6,500, with any excess being tax deductible in year two. There seems to be no clear basis why $6,500 should be the number, except that it reinforces the excessiveness of the current forestry MIS charging $9,000. History has taught us that arbitrary setting of hurdle rates will only induce more creative means by which MIS operators can get around them. It will ensure that forestry is pushed into more marginal forestry country which is cheaper.

- If the Government wishes to continue with the grossly inefficient and expensive policy structure then we would recommend that the following changes be included:

  1. That point 2 of the proposed changes is replaced with "Forestry MIS investors would be able to deduct the full cost of their investment up to that which is considered reasonable by an independent board of experts. Any amount in excess of this charged by the Promoter will be deemed to be non-deductible."

  2. To ensure that fund managers cannot be farm managers. All farm management services need to be contracted at arms length to ensure there is no conflict of interest and that fund managers are working entirely for the benefit of the investor.

  3. To ensure that MIS do not profiteer at the expense of the taxpayer, the ATO should provide a trustee arrangement for upfront subscription to these investments. That is, for each offering a trust fund is set up, which is administered by the ATO. Promoters can only draw down on the funds by providing the trustee with appropriate invoices for work completed. The trustee will only disperse funds if the expenditure aligns with agreed expenditure as set out in the Product Disclosure Statements (PDS) and the expenses are seen as commercially fair and reasonable. For example, the promoter would be allowed three draw downs which would equate to - 20% of the funds for draw down one, 40% for drawdown two, and 40% for drawdown three. This methodology is successfully used by the banking industry for what are called Building in Course of Erection (BICOE) loans, to ensure that funds are dispersed only for the appropriate purpose. The promoters would fully fund the trustee arrangements.

  4. That payment to an advisor be capped at 4%, in line with other retail investment products.

  5. That an independent body be established for certification. While we commend the development of the certification process for best practice, we do have some concern with DAFF's independence in this matter.

  6. That ASIC be given statutory responsibility for issuing expert opinions for all mass marketed investment schemes. The onus will be on the scheme promoters, designers and/or managers to provide ASIC with the investment proposal so that the proposal can be independently and expertly assessed. An ASIC report on the proposal should include advice on general market conditions, the going market rates for establishment of the project, the yields and returns that could be realistically expected, and the projections for the future of the industry. Furthermore, the ASIC report must be included in the final prospectus, or any other marketing information related to the project, and a copy must be provided to the ATO. All costs should be funded by the promoter industry.

7. That Policy Statement (PS170) is re-written to ensure that promoters must provide credible forward financial forecasts for investor scrutiny.

8. That ASIC, at the cost of the promoters, should also maintain a database of past and current schemes' financial performance.

9. We believe that the ATO has been too lenient in its policing of Part IVA, 82KZMG [1] and 82KZMF [2] with regards to these schemes. Clear guidelines based on 'real' independent advice needs to be developed for the ATO to ensure that any ambiguities are removed.

10. MIS forestry projects need to include land ownership as well as tree ownership.

- Given MS&A's limited resources and time we do not have the resources required to carry out the required in-depth analysis of the MIS taxation policy. Given the significant impact MIS projects are having on rural Australia we call on the Australian Government to finally bite the bullet and commission a complete and independent review of both the MIS Act and Taxation Action Act pertaining to these schemes. The terms of reference should be 'to ensure that both the needs of the forestry industry and existing industry can be met in a way that will optimize both the economic, social and environmental outcomes to rural Australia'.

- At the very least, we believe there are clear grounds for a review of all existing forestry MIS projects under Part IVA Income Tax Assessment Act (ITAA) 1936, as many of these have been charging grossly excessive upfront fees, and tax avoidance has been identified as being the dominant purpose for investor participation. However, rather than the investor being forced to repay the excesses, that the promoter, on behalf of the investor, be forced to make good any excessive deductions that have been claimed.

[1] 82KZMF state that only seasonally dependent agronomic activities can be carried forward.
[2] Formula for spreading upfront fees that are not totally deductible in year one, and should be spread across the total project.

Background to submission

The purpose of this submission is to highlight the structural problems of the current MIS industry and then to identify solutions to these issues.

It is our opinion the proposed changes to current tax arrangements do nothing to rectify the systemic problems that surround the MIS industry. We wish to stress that we are not against commercial forestry or other forms of production mentioned in this submission. What we are against is a process which allows an entity to compete unfairly for resources, particularly land and water, and allow people to create wealth based purely on the ability to exploit taxation loop holes.

We believe that this review provides a great opportunity for the Federal Government to provide leadership in the development of a long-term sustainable forestry policy. It will require a significant adjustment to the current taxation polices.

What is an MIS?

A managed investment scheme is an entity by which investor funds can be pooled by a third party on behalf of the investor. In the case of an agribusiness, the Australian Taxation Office (ATO) may allow the investor to claim the operating expenses of the agribusiness as a tax deduction against the investor's total income. These deductions are allowed through a system of product rulings that describe the specific cost items the ATO will allow as deductible expenses. The ATO states that it does not, in any way, make a judgment on the financial viability or reasonableness of the scheme. However, it would seem the general public does draw a level of comfort from the ATO stamp that a tax deduction deems that the scheme will be profitable.

In the case of forestry there is a special ruling called the 12 month ruling. Unlike all other MIS projects in which money must be spent within the financial year it is raised (invested), forestry has another 12 month period in which to spend the money.

These tax advantages are not available to the family farmer

It is rather disingenuous of the MIS industry to state that the same tax option is available to your typical family farmer. An MIS is given special rights under product rulings that place them at a distinct advantage to the family farm. Under Division 35 of the ITAA 1997, a venture must pass at least one of four 'objective tests' for the active investor (individual or partner) to have the right to offset losses from the business activity against other income. Under product rulings this is waived for investors in MIS projects under section 35-10. MIS registered operations are also given protection from relevant provisions in Part IVA. The protection from prosecution, under the relevant tax acts, is not available for a farmer or individual investor who wishes to be eligible for primary producer status, by investing on an individual basis in a farmers operation.

Information obtained from the ATO states that, to obtain these tax advantages you need to be an MIS. To elicit funds from the public would also require a Financial Services Licence. So why can't a farmer do the same thing? It is nonsense to think that a farmer would have the money, the time or the required financial prerequisites to become an MIS and obtain a Financial

Services License. Even if farmers were able to obtain the money, skills and prerequisites, the schemes work by the promoter being able to charge the investor excessive upfront fees. Section 82KZMG also specifically states that to be eligible for the prepayment advantages then the 'taxpayer must not have day to day control over the operation of the agreement' and that 'there is more than one participant in the agreement in the same capacity as the taxpayer'. This would clearly rule out an individual farmer who wants to raise capital to do his/her own private plantation to be eligible for these advantages. In summary, this is an argument about access to capital. In the MIS case they can obtain capital which is subsidised by the government up to nearly 50% of the principal, being the top tax rate, while the farmer must buy in capital (from the banks) at full cost and with no subsidy on the principal amount.

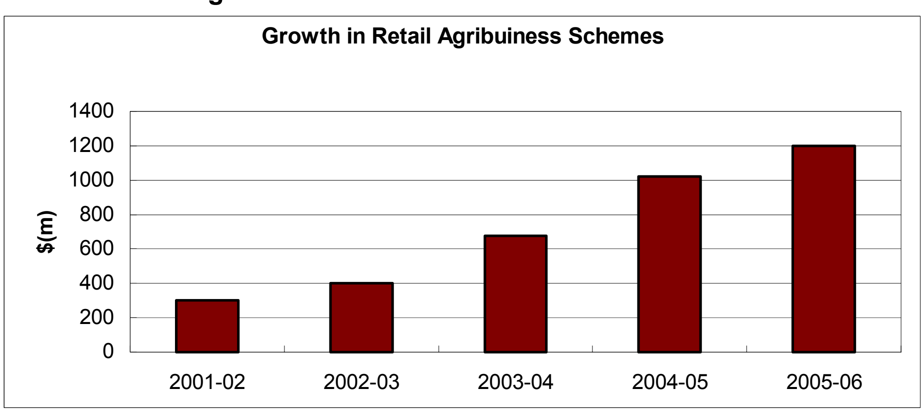
Analysis carried out by the USDA to measure the distorting effect of tax policies then available in the USA demonstrated that tax savings enabled a top bracket taxpayer to bid nearly $3,200 for rapidly appreciating farmland, for which a 16 percent taxpayer could justify only a $2,200 bid. These tax advantages for agricultural investment were removed in the USA in 1986. 'We learned in those years that tax shelters change the rules of competition. Efficiency is not sufficient to survive in a tax shelter industry. One must exploit the tax shelters as effectively as his/her competitors. The advantage goes to the top bracket taxpayers with large incomes to shelter and capital to invest. Moderate-size and beginning farmers were placed at unfair competitive advantage'[3]

'We also learned that industries plagued by tax shelters are less profitable. Tax shelters are magnets for investments. AS more dollars were invested in agriculture, meat and milk production increased and prices fell. Production costs were increased, as tax motivated investment drove the price of farmland well beyond its income earning potential'[4]

The industry

The MIS agribusiness industry has been highly successful in attracting funds into their schemes. Since the 2001-02 financial year we have seen in the vicinity of $3.6bn worth of retail agribusiness investment schemes sold[5] (figure one). **This represents a compound annual growth rate of thirty six percent in these schemes since 01-02.**

Figure one: Growth of retail agribusiness schemes



Source: Great Southern 2006 Investor roadshow

[3] Chuck Hassebrook Centre for Rural Affairs Walthill NE USA
[4] Chuck Hassebrook Centre for Rural Affairs Walthill NE USA
[5] Derived from information presented in the Great Southern Global Roadshow Presentation January 2006

A highly concentrated industry

The industry is highly concentrated with three players being: Timbercorp, Gunns and Great Southern; accounting for over 50% of the total sales into tax effective market[6]. By far the dominant player is Great Southern with 35% of all agribusiness MIS[7]. MIS projects are concentrated in a few industries. The dominant area of investing is the timber industry. Seventy three percent of 2005 projects were in the timber industry (table one)[8].

Table one: Industry investment

Industry	2004	2005
Timber	76%	73%
Grapes and Wines	9%	7%
Almonds	4%	8%
Olives	2%	3%
Other horticulture	3%	8%
Other	6%	1%
Total(M)	$665	$1030

It is important to note that 80% of the MIS money is being sunk into two established industries, being forestry and wine. Discussion with researchers and promoters would indicate that the MIS industry will be increasing its activity and influence in more traditional agriculture industries. Currently, the beef industry is being targeted and now the MIS industry is looking to target the dairy industry. This would seem contrary to the spirit of the MIS Act, in that it was enacted to assist the development of agricultural industries, where it was considered a market failure had occurred in regard to capital availability. This is certainly not the case in the wine, cattle and dairy industries.

Even in the case of the almond industry, the fundamentals were so strong that it was attracting capital without the need to overheat the market via the MIS industry.

The greatest Government assisted transfer of agricultural wealth since the soldier settler scheme, but why?

John Young, CEO of Great Southern Plantations, states in the financial review that “In dollar terms we’d be the largest agricultural landholder in Australia by a mile”[9]. John Young has amassed an estimated personal fortune ($184 million) even though only a handful of Great Southern promoted investments have actually reached maturity. Of these the return can only be considered disappointing.

This growth and transfer of wealth is not based on profitable land use. It is purely the result of Government policies distorting the market. Current tax policies mean the promoters profits are

[6] IFA April 2004
[7] Great Southern Global Roadshow January 2006
[8] Great Southern Roadshow January 2006
[9] The Financial Review 6/5/2006

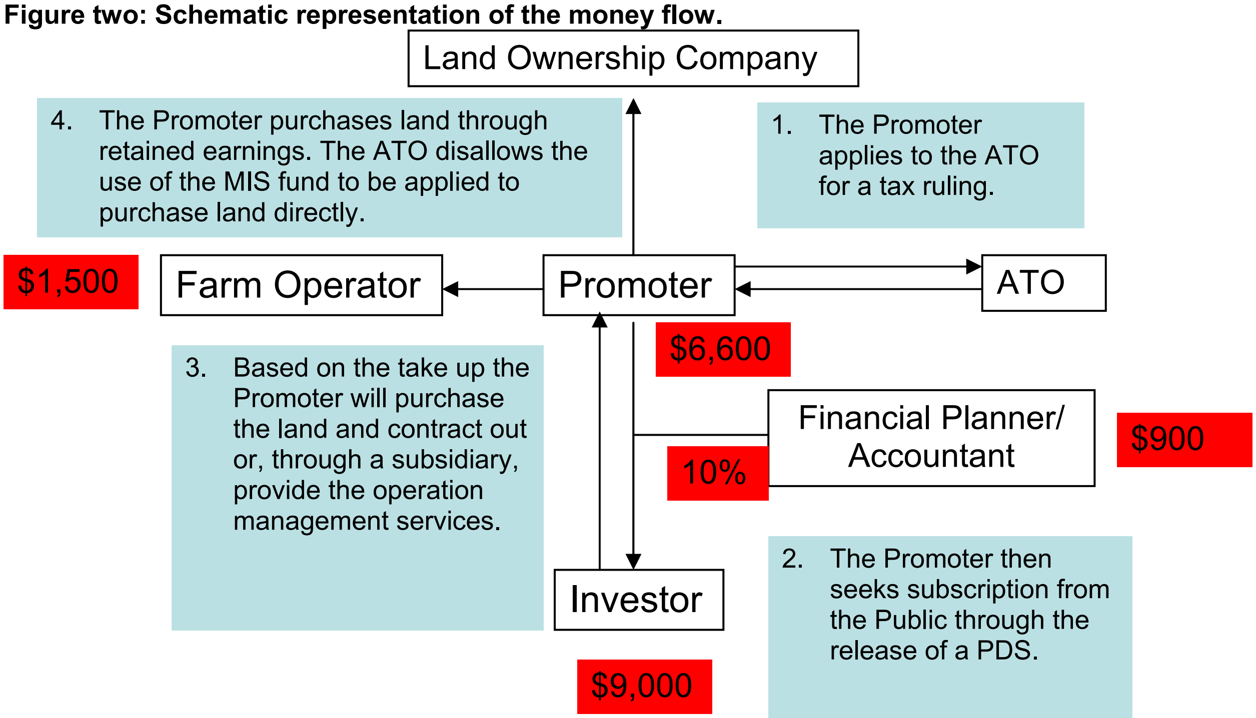
based purely on its ability to sell a scheme and capture upfront fees, not on how profitable that scheme is. **More importantly, the risk of failure of these schemes is jointly owned by the investor and the taxpayer. The promoter bears no financial risk if the project fails.**

How the schemes work

It is fundamental to understanding these schemes to clearly see the relationship between the promoter and the investor. The promoters, such as Great Southern, charge the investor (man in the street) substantial upfront fees to manage a timber lot on their behalf.

It is critical to understand that the investor only owns the trees. The promoter buys the land, using the surplus, generated from these massive upfront fees charged, for other schemes. The investors for their part get a tax deduction in year one of the investment and, if all goes well (and it's a big if), maybe a return in ten to fifteen years time. Thanks to the tax advantage the promoter gets a significant cashflow in year one which they can then roll over into promoting another scheme. It works much like a pyramid selling scheme. The critical facilitator to this process is current Federal Government taxation policy.

Figure two: Schematic representation of the money flow.



Based on Timbercorp 2006 Timber offering

Current Government policy allows promoters to obtain significant benefits and works against the interest of the investor

Both the current and proposed MIS taxation policies perversely work against the investor in favour of the promoter. Using independently sourced data the true cost of planting a hectare of land is significantly less than the promoter charges. Based on these figures you can achieve a reasonable return on your establishment costs. However, the current tax policy induces the promoter to highly inflate this upfront cost. Based on this cost, investors are destined never to achieve a reasonable return on their money. Why would the investor invest? For two reasons: firstly, the inducement of the tax deduction – the higher the better as far as the investor is concerned; secondly, the lack of any credible independent analysis about the real returns that investors are likely to receive from the investment and what it should cost.

Let's dispel the myth that the current taxation policy does not provide the MIS industry a significant benefit. Time is money. This is one of the most fundamental principles of economics. The benefit is gained in two ways. Firstly, the taxpayer has the ability to claim a tax refund upfront; whilst for a non-MIS company this tax deduction would not be gained until the company has produced income. In the model we have used that would be in year eleven. Two things work in favour of the investor and against the Australian Government: first is the opportunity cost of income forgone by the government; and second, the income that will be received in year eleven will not achieve a level which will repay the government for what is basically an interest free loan.

Table two: The level of Government subsidy to the MIS industry.

MAI	15	20	25
Subscriptions	$ 9,000	$ 9,000	$ 9,000
Tax Deduct @48.5%	$ 4,365	$ 4,365	$ 4,365
Opp Costs@5% Cumulative	$ 3,101	$ 3,101	$ 3,101
Total costs to the ATO	$ 7,466	$ 7,466	$ 7,466
Tax regained at end of Proj	$ 4,152	$ 5,535	$ 6,919
Loss to the ATO	$ 3,314	$ 1,930	$ 546

Opp Costs – Opportunity cost

Table two highlights that the current policy is not revenue neutral; this means that the ATO forgoes nearly $2,000 per hectare based on a MAI of 20. Even given an optimistic MAI of 25 the Australian Government forgoes $546 per hectare. **This is a direct subsidy that ends up in the pockets of the MIS industry and provides them with an unfair advantage in competing for scarce resources such as land and water.**

Secondly, by the allowing the 12 month rule, or the proposed 18 month rule, you are providing another major tax advantage to one industry which is not available to any other investor. In doing so you are allowing forestry MIS the ability to unfairly compete in the land market. The current structure means that promoters can accumulate significant sums of money and place undue financial pressure on land value. This effect has been substantiated in the Bureau of Rural Science review of the socioeconomic impacts of plantation forestry.[10]

Independent forestry advice has shown that charging investors up to $9,000 per hectare is more than likely to result in a loss, given current prevailing market signals[11]. Yet, due to the

[10] Overall conclusions, Socioeconomic impacts plantation forestry, Nov 2005
[11] Rob de Fegely Principal Jaakko Poyry

government's tax policy, the unsuspecting public is induced into these schemes by availability of the upfront tax deduction. This has been supported by ATO's evidence to the senate enquiry in tax-effective managed investment schemes, which stated that, 'in some cases these costs may be artificially geared so that no matter what happens to the business itself, investors are guaranteed at least a "tax profit" from the investment'[12]. Interestingly, as the enquiry states 'that this is one of the factors that is relevant to a determination that the investor's "dominant purpose" in making the investment was to obtain tax benefit, and hence to a determination that Part IVA applies'[13]. As stated the only winners of these schemes are the promoters and the financial planner who can earn up to 12% commission in flogging these schemes off.

Is the MIS industry profiteering at the expense of the Australian taxpayer?

The following example highlights the profit gouging of current tax policy that is occurring. The example compares the current costing, as set out in the Great Southern Plantation 2006 Product Disclosure Statement versus AMP Balanced Growth Retail, given an eleven year investment time frame.

Table three: Comparison of fees between AMP and Great Southern[14]

AMP		
Application Amount		9,000
Contribution Fee	4%	360
Management Fee	2.80%	2,520
Total Fee		2,880
Annualised Cost		262
Annualised %		2.9%
Great Southern		
Application Amount		9,000
Establishment Costs		2,000
Contribution Fee		7,000
Management Fee	3%	417
Rent Costs	2.50%	347
Total Fee		7,764
Annualised Cost		706
Annualised %		7.8%
% difference		270%

[12] Page 54 Senate economics reference committee inquiry into mass marketed tax effected schemes and investor protection.
[13] Page 54 Senate economics reference committee inquiry into mass marketed tax effected schemes and investor protection.

[14] I have assumed establishment costs of $2,000, this is 40% above independent valuers' costing which states that the cost of Rip&Mound, broad spray, strip spray, seedlings, planting, fertilizer application, insect control and rabbit control is $1,427/ha. It is 206% above Government published cost which puts the establishment cost at $970. Refer p90 of the Government report titled Eucalypt Plantations for Solid Wood Products in Australia, 2005.

There is a 270% difference in fees charged by AMP compared to Great Southern. However, it could be argued that the cost of running an agricultural investment is significantly more expensive than a share portfolio. If this was the case then we would expect the net profit to align with non-MIS retail investment providers such as AMP, as Great Southern would have had to incur greater costs to run an agricultural investment[15]. If we can compare AMP's profit and loss against Great Southern's we find the following:

Table four: Comparison of Balance Sheets

Great Southern Planations	**2005**	**2004**
Profit Margin	39%	45%
Profit Margin/Total Assets	11%	14%
AMP Pty Ltd		
Profit Margin	6.73%	7.40%
Profit Margin/Total Assets	0.9%	1.2%
Difference in Profit Margin	579%	605%
Difference in PM/Total Assets	1112%	1243%

Table four shows that Great Southern's profit margin has averaged 592% greater than that of AMP over the last two years. The difference in profit margin per asset owned averaged 1,176% over the last two years, which only reinforces the fact that Great Southern is able to obtain margins significantly better than industry norms.

These tables highlight the fact that MIS companies such as Great Southern are making grossly excessive profits. This can only occur due to the current tax policies making the high upfront fee attractive to the investor due to its tax deductibility. The question must be asked, how can these schemes continue to avoid being dealt with under Part IVA of the tax act?

We believe that the ATO has been too lenient in its policing of Part IVA, 82KZMG[16] and 82KZMF[17] with regard to these schemes. Clear guidelines based on the above independent advice need to be developed for the ATO to ensure that any ambiguities are removed.

This analysis supports the findings in the Senate Minority report which stated that *"Allowing large up-front management and lease fees to be charged poses a number of problems. In the first instance, there is significant drain on the Commonwealth revenue by allowing scheme promoters to classify the funds contribution by investors as managed and lease fees, when in most instances nearly half of the money is used to purchase land as a capital item. Consequently, scheme managers use someone else's money in the guise of management and lease fees, to buy land which they then can sell and take a profit".*[18]

Michael D'Ascenzo, Commissioner of Taxation, has made the following comments regarding tax avoidance.

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[15] Evidence would suggest that while they are more expense to run they are not THAT more expensive. Discussion held with an agricultural fund run for wholesale investors put their cost at below 2% to the investor.

[16] 82KZMF state that only seasonally dependent agronomic activities can be carried forward.

[17] Formula for spreading upfront fees that are not totally deductible in year one, and should be spread across the total project.

[18] Page 81 Senate economics reference committee inquiry into mass marketed tax effected schemes and investor protection.

“Tax avoidance may be characterised as a misuse or abuse of the law rather than a disregard for it. It is often driven by the exploitation of structural loopholes in the law to achieve tax outcomes that were not intended by the Parliament” (Presentation to the 2002 Queensland Taxation Institute Convention).

“The need to have regard to the wider context means that steps which by themselves are not objectionable in terms of the policy and structure of the tax legislation may pose problems in combination. Sometimes the mischief occurs from a combination of what might be legitimate steps to form an abusive scheme. At other times transactions within a series of transactions are explicable only in terms of a tax driven purpose.” (Presentation to the 2002 Queensland Taxation Institute Convention)

Mr D’Ascenzo also stated that one of the main triggers for applying Part IVA was ‘Grossly excessive/inflated fees.’[19]

An ASIC survey of consumers supports the fact that the tax benefits are the dominant reasons for people entering into these schemes. Forty-two percent of those surveyed stated that the tax advantage was the major attraction of primary production schemes, followed distantly by the requirement for future income (26%). Interestingly, ASIC makes the comment that, from its experience, ‘it is unusual for investors to complain about these schemes unless the tax-effectiveness of their investments is threatened’[20].

The above analysis clearly identifies that MIS promoters are profiteering from the current taxation rules available to forestry MIS. While it could be argued that they are not misusing or abusing the rules there is a clear profiteering by promoters of the current tax regime.

This evidence supports the fact that the fundamental reason behind investors investing in these schemes can only be explained in terms of tax avoidance. So why does the ATO not enforce Part IVA given the facts of clear excessive upfront fees and that the dominant purpose is to avoid tax?

Taxpayer funded multi-millionaires

Last year over $1bn worth of MIS schemes where promoted. Most of this money would have been tax-deductible to the investor. This represents a loss of tax revenue, based on the reasonable assumption that most of these investors where in the top tax bracket, of close to half a billion dollars. Given the inflated cost of these schemes, most of this tax revenue went straight to the bottom line of the promoter. John Young, CEO of Great Southern, has amassed a fortune ($184 million), based on the ability to charge excessive up-front fees to schemes that have only a small probability of achieving an economic return.

It is interesting to note that the Great Southern share price has achieved high double digit returns to their shareholders, with the share price having doubled in value since 2001. Only one of the schemes promoted by Great Southern has been harvested and it delivered what at best could be described as suboptimal returns. Remember that the shareholder in the company and the investor in the schemes are different people.

[19] Page 69 Senate economics reference committee inquiry into mass marketed tax effected schemes and investor protection.
[20] ASIC report on primary production schemes February 2003.

The costs to the investor are over the top and have no sense of economic reasonableness

The following table from the Weekly Times dated 14/12/2005 compares the tax deduction that would be available to a farmer doing their own timber project versus what is available to an investor in a forestry MIS.

Table five: Tax deduction comparison

	Farmer	Investor
Taxable Income	$120,000	$120,000
Normal tax bill	$44,249	$44,249
Establish Cost 4 ha	$6,000	$36,000
Tax benefit	$2,910	$17,460
Deduct from Income	$120,000-$2,910	$120,000-$17,460
New Taxable Income	$117,090	$102,540
Final Tax Bill	$42,837	$35,770
Tax Savings	**$1,412**	**$8,479**

Source: Weekly Times, 14/12/2005

Robert Hance, CEO of Timbercorp, reinforces the fact this tax saving is the fundamental driver for the investor making the investment stating that 'if you can put your tax saving to work, at a premium rate, then it will become less important to you whether you make a big profit or not out of your trees'.[21]

The Games people play.

As the first schemes come to fruition it is becoming obvious that the actual returns are well below market expectation. To cover up this fact Great Southern as, highlighted in their notes to financial statement 2005 note 33 point 5, have internally purchased the wood at considerably inflated prices. The intelligent investor newsletter picks up on this point up and highlights that this considerable act of generosity, totaling $3 million after tax, would shelter current income stream from coming under investor scrutiny. It is estimated that they will generate a profit of $124 million from project sales this year. $3 million is a small investment in keeping investors quiet fro another few years.

What is the cost-benefit value of MIS forestry projects?

A major criticism of timber industry 2020 Vision must be the lack of a credible cost-benefit study. The vision is quick to state the benefits of forestry but neglects to encompass the costs into its analysis. It must be remembered that for every hectare of forestry going in, the local community will be losing a hectare of a competing industry. With the south west of Victoria this would be either mixed livestock, cropping or dairying. The following analysis compares the forgone profit and the net expenditure losses or gains of a forestry operation versus either a mixed farming operation or dairy operation. Information has been obtained from the DPI Farm Monitor Project

[21] Financial Review 6/5/2006

2004/2005 and Red Sky's Dairy benchmark report for 2004/05. Interestingly, credible independent forestry information was harder to obtain. However, based on personal communication with independent foresters and independent valuers, I have modeled the expected costs and returns (appendix 1).

The analysis makes the following assumptions:

1. Expenditure is a strong indicator of economic activity. Therefore, high expenditure per hectare will mean greater local economic activity.
2. Any profit that a forestry MIS generates will be lost from the local community economy as it will be paid to the investor, who is assumed to be city based. While the profit generated by the broadacre operator or dairy farmer is locally based, and therefore the profit will come back to the local community.
3. For both broadacre and dairy we used average figures.
4. The line is drawn at the farmgate.
5. The period is eleven years and all values are nominal.

Based on these assumptions the following tables show what the net costs of substituting current agricultural activities with forestry will have on local communities. In interpreting the tables, for every hectare of broadacre that is converted to forestry the average net loss in expenditure over the eleven year period is $654, the loss of profit is $2,112 giving a net loss of economic activity of $2,766.

Table six: Forestry vs Broadacre

Ha	Expenditure	Profit	Total
1	$ 654	2,112	2,766
10	$ 6,540	21,120	27,660
100	$ 65,400	211,200	276,600
1,000	$ 654,000	2,112,000	2,766,000
10,000	$ 6,540,000	21,120,000	27,660,000

Table seven: Forestry vs Dairy

Ha's	Expenditure	Income	Total
1	$ 28,181	7,997	36,178
10	$ 281,810	79,970	361,780
100	$ 2,818,100	799,700	3,617,800
1,000	$ 28,181,000	7,997,000	36,178,000
10,000	$ 281,810,000	79,970,000	361,780,000

In both cases we can see that government policy, which is supporting the substituting of broadacre or dairy country for forestry, will have a serious economic impact on local communities in south west Victoria. In summary based on an eleven year period, for every 10,000 hectares that is substituted we lose $27m if it is currently broadacre country, or $361m if it is currently dairy country.

It is often argued that the value-added benefit of a pulp mill far outweighs the cost, as identified in this analysis. Unfortunately, I could not obtain information to model this. However, I was able to model the value a dairy manufacturing operation adds to a local community based on the 2005 balance sheet of Warrnambool Cheese and Butter Pty Ltd (appendix 2).

Table eight: Value of Dairy Industry per HA

Ha's	Expenditure	Income	Total
1	$ 6,560	935	7,495
10	$ 65,602	9,346	74,949
100	$ 656,023	93,465	749,488
1,000	$ 6,560,233	934,649	7,494,881
10,000	$ 65,602,327	9,346,486	74,948,813

If we add this to the farm gate matrix the net effect per hectare would be:

Table nine: Total value of On-farm production and added value

Ha's	Total
1	43,673
10	436,729
100	4,367,288
1,000	43,672,881
10,000	436,728,813

In summary, if we lost 10,000 hectares of dairy country to timber in the south west of Victoria, and this then triggers the closure of a dairy manufacturing business, nearly half a billion dollars could be lost to the local community over an eleven year period, if we take into consideration the beyond the farm gate value-adding. This means that pulp mills must be pumping more than half a billion dollars worth of economic activity per 10,000 ha into the local community for the current Federal Government to be providing a net benefit. I consider this to be highly unlikely.

While I would be the first to admit that the above modeling requires deeper analysis, it is robust enough to raise alarm bells that current taxation policy is having a detrimental effect on the prosperity of rural Australia.

Why does the forestry industry need protection at the expense of other industries?

I find it incomprehensible that protectionist rhetoric should be driving this debate. The 2020 forestry vision would seem lightweight in its economic analysis. There is a significant body of evidence from eminent academics such as Professor Gordon MacAulay and Dr Judy Clark that shows we have enough plantation wood to meet our Pulp chips requirements without the need to subsidise its growth.

Current Federal Government Plantation Taxation policy is wedded to the need to achieve the so-called ‘2020 Vision’. Unfortunately, there does not seem to have been any independent and robust analysis to the cost benefits of achieving this vision.

Firstly, the original document needs to be put in context, as the title states it’s ‘a plan to achieve the plantations 2020 vision’, this was never a document published to analyse the cost benefits of achieving this plan. Personal communication with the authors, Centre for International Economics, reinforces the fact that they were never asked to analyse the economic net benefits of the plan, just to provide a strategic plan to achieve the set goal. Justifiably, it is not surprising therefore that they have delivered a ‘whatever it takes to achieve this strategy’ attitude in framing the required outcomes of the report.

The fundamental driver of the vision is the target. This was set in the original document to treble the effective area of Australia's plantation between 1996 and 2020[22]. The obvious question that then arises is why treble and why 2020? The benefits of the 2020 vision were made as follows:

1. More than $3 billion will be invested.
2. 20% increase in farm incomes.
3. The current $2 billion wood and wood product trade deficit would be converted into a surplus.
4. Up to 40,000 jobs will be created.

There is no economic modeling to support these statements. Interestingly, as I have already discussed, the forestry industry focuses on the benefits and disregards the costs. For example, how many jobs will be lost in those industries that currently support existing agricultural pursuits?

The most important statement of the whole vision document is made on page 19, **'Care would need to be taken to ensure that any incentive offered would not distort investment decision'[23]** Clearly, as we have identified, the current taxation policy is distorting investment decision.

It is our concern that government policy, which is based purely on a production target at the expense of profitability and long term sustainability, can have disastrous consequences. (Refer to the wine industry)

To put this in context, currently in New Zealand significant areas of plantation forestry are being killed (sprayed out) due to the lack of profitability in plantation forestry. It is interesting to note that New Zealand is held up as the role model within the report.

The costs have been estimated to me to be around $2,200 per hectare to renovate timber country back to profitable pasture country. Given this, there is a strong likelihood that where growth rates have been uneconomical this land will become redundant, as it will be too expensive to revert back to pasture, unless the government provides assistance! Why do we as a nation, wish to go down this road, and in doing so destroy the current social and economic infrastructure that currently supports viable and profitable agricultural pursuits?

Welcome to the real word!

The forest industry states that it needs government support due to the fact that governments around the world provide support to their industries. The reality is that agriculture faces corrupt world markets. World governments provide substantial support to their farmers (table 10) which is not available to the Australian farmer.

[22] A plan to achieve the plantations 2020 vision 1997
[23] A plan to achieve the plantations 2020 vision 1997

Table 10: Percentage of farm income provided by Government assistance

Australia	5%
USA	18%
EEC	38%
Japan	57%
Rep of Korea	60%

Source: OECD

Forestry is competing in a world market that is no more corrupt than other agricultural products and on that basis deserves no more government assistance than wheat or beef.

Has the vision overshot?

Don Jowett one of the most respected agro-foresters in Australia made the following telling points in the Weekly Times 14/2005. He stated that:

1. 80,000 ha of land in the southeast South Australia were originally identified as suitable for timber.
2. 130,000 ha have been planted with another 10,000-11,000 ha due to be put in this season.
3. Many plantations were now growing in on marginal, lower rainfall land outside the ideal growing areas.
4. Farms rejected for blue gums two years ago had now been bought for plantations.
5. He believes that the performance of some areas planted will be so poor that they 'won't even be harvested.'

The above evidence places serious question on the credibility and sustainability of this vision. Don Jowett's comments clearly show that plantations are now being planted in areas which are unlikely to provide an economic outcome to the investor. The promoter will still achieve substantial profit, given the fact that their profit is dependent on how many hectares they plant, not how profitable those plantations are.

Has the MIS process delivered on the Vision?

The overwhelming majority of schemes have focused on the short rotation pulpwood industry. There would seem to be a reasonable bodily of evidence to suggest that future international pulpwood demand will become increasingly competitive due to increasing global supply. Very little of the MIS wood has been grown with the saw log end product in mind. The result of this is that is very likely that we will have a glut in pulpwood product with and increasing shortage of saw log product. In summary then the MIS solution is only going to exacerbate the growing trade deficit in wood products as it has not dealt with the growing shortage of the high value timber products.

What is required?

'Sound Business need have no fear of progressive government. It is only the business that thrives on special privilege that is in danger', Woodrow Wilson.

Setting the scene

In reviewing the taxation policy it is important that the MIS scene is put into context. Firstly, how successful have they been in delivering on government policy in the development of new industries? A Bramley and Chudlieigh (2000) project completed for RIRDC found 'that the overall performance of MIS was mediocre with the poor quality of management and high commissions to promoters limiting returns to investors'[24]. While it is beyond the scope of this report to analyse the competence of management, we would argue that our analysis would suggest that high commissions to promoters is still an issue, and that current government policy is only reinforcing the environment that facilitates the charging of excessive upfront fees.

An issue that we have not considered in depth in our submission, but is crucial in the debate of MIS projects, is the issue of asymmetric information. Lacey and Watson identified that this issue alone places the whole MIS industry at question. 'Asymmetric information arises when there is differing quality of product/services that could be traded, but information on that quality is inherently less "knowledgeable" by one side (i.e. selling or buying) of the transactions'[25]. In the case of an MIS scheme there is a clear lack of financial analysis of the likely return of the project. To be fair to the promoter, this situation is clearly a result of Policy Statement 170, Prospective Financial Information. This basically 'gags' a promoter from making any comments on long term investment returns greater than two years. Akerlof in his paper *Market for Lemons* states that 'the market for used cars is not improved by muzzling the salesperson, but by improving buyers' information on the quality of cars offered and on the past performance of the salesperson'[26].

Of major concern to the Australian Investment Communities is, by there own admission, the inability of organisations such as ASIC to police these schemes. An ASIC report in 2003 made the following points:

1. The questionable commerciality of the schemes.
2. At times, the poor quality and absence of disclosure.
3. Occasional inappropriate or misleading advice.
4. Payment of high commissions in excess of norms for retail investment schemes.

The overall lack of underlying commercial validity of most MIS was noted by Lacey and Watson that, 'one independent assessment of schemes offered to the public in 2002-03 found that less than ten percent were sufficiently sound investments to warrant their recommendation. These assessments are based on schemes that have been given product ruling by the ATO. Product Ruling may have provided greater tax certainty for individual investors in projects, but from the community's point of view resources are wasted if investors are being encouraged to invest in non-commercial projects by optimistic forecasts and/or inadequate regulation.'[27]

[24] Lacey and Watson RIRDC(2004)
[25] Lacey and Watson RIRDC(2004) p4
[26] Lacey and Watson RIRDC(2004) p13
[27] Lacey and Watson RIRDC(2004) p12

This lack of quality information is a huge issue which is compounded by ASIC's own Policy Statement 170 which allows the promoter to hide from giving any genuine forecast of potential returns, as it can be considered misleading. Compounding this is the lack of any information on the historical financial performance of these schemes.

The senate inquiry questions the current so-called 'independent reports' as being deficient. 'Given that these reports are paid for by the promoter it is difficult to see how they can be claimed to be independent. There are examples of promoters "shopping" to find the report they need to support their investment prospectus.'[28]

Comment on proposed tax changes

The above information points out the ramifications of current policy. The proposed changes to current taxation policy do nothing to rectify the pre-existing problems. It is hoped the paper has clearly outlined that there is significant doubt regarding the benefits of current MIS tax policy, except to the promoters of these schemes. Therefore, if market failure can be established and therefore the need for risk sharing by the Australian community with the investor, then it must be done in a way that supports the investor not the promoter at the expense of the investor and the Australian taxpayer, as current policy does.

In summary, proposed policy changes must be able to resolve the current failures of the MIS industry being:

1. Profiteering by promoters at the expense of the Australian taxpayer.
2. Asymmetric information – due to the lack of credible independent and transparent information on the profitability of the project.
3. Lack of accountability by the promoters to achieve profitable outcomes for their investor clients.

Potential solutions for consideration

ASIC, in their submission to the senate enquiry, make the very pertinent point that 'in the UK for example, investments in products that do not have traditional "securities" as the underlying investment, cannot be marketed directly to retail investors.'[29]

Having being involved in assessing rural investments for the last 15 years of my professional career, and therefore having a reasonable knowledge of the risk/return characteristics of an agricultural investment, I can only concur with this sentiment. Agricultural investment for the general public should only be available through the wholesale or professional market. This would provide the individual investor the protection of a wholesale institution that will do the correct due-diligence on their behalf and the ability to spread risk across a number of investments.

[28] Minority Report Senate inquiry into mass marketed tax effect schemes and investor protection
[29] ASIC submission to Senate enquiry 853

As highlighted time and time again by organisations such as ASIC, agribusiness MIS projects chew up a disproportionate amount of time in regulation and administration which far outweigh any perceived benefit they may provide to the Australian community.

Again ASIC, in its submission to the Senate inquiry, makes the following comments about what changes they believe should be considered by the enquiry to improve the current state of MIS investor protection.

‘1. Whether it is appropriate that a disproportionate amount of regulatory resources continue to be directed at regulation of this sector.
2. Whether different front end solutions are needed to address investment in tax effective schemes. This could for example mean that investment in tax effective schemes should be taken out of the public fundraising arena (i.e. restrict investments to professional and sophisticated investors).
3. Whether the regulatory resources applied to the sector should be lessened but perhaps with greater warnings to investors about the risks of this type of investment.’[30]

Preferred Option

To deliver an outcome that removes both the current capital distortions investment risk and the high cost of administration and compliance by the government, we believe our preferred option would achieve this. That is:

1. Close down the MIS tax advantages and allow the market to allocate scarce resources efficiently.
2. Legislate that other than those retail investments that can be considered traditional “securities”, be disallowed to be marketed directly to the retail investor.

This paper has clearly outlined that the likelihood of any tangible NET benefit to either the local communities or the Australian taxpayer of the current MIS regime, in the long run, is highly questionable. Therefore, we can see no reason to maintain the current MIS investment structure.

Second option – dispensation for the ‘special’ needs of the forestry industry

It is argued that given the timing difference between the return and the initial investment, forestry should be given special dispensation. While this may be the case, and we consider it to be highly questionable, it is interesting to note that current taxation policy significantly reduces the likelihood of the investor receiving an economic return, rather than if the taxation advantage was not available. This is simply due to the promoter exploiting the tax benefit and charging the investor well above cost of operation, and the investor accepting it, given he/she can write it off as a tax deduction.

To support the forestry industry, taxation policy should be adjusted to promote long term profitable timber production and efficiency within the industry. For guidance the same issue was

[30] ASIC submission to Senate enquiry 853

dealt with within the UK industry. The tax incentive was removed from the upfront deduction to a tax break on the final product. This would have several favourable consequences:

1. It would remove the ability for an MIS promoter to profiteer at the expense of the Australian taxpayer.
2. Schemes would have to be profit focused. Currently MIS promoters make money out of how many hectares they plant not on how profitable that is.
3. It would drastically reduce the amount of compliance and distraction required of these schemes by the ATO and ASIC, as the benefit at the end of the scheme becomes easily assessable.
4. It will encourage 'best practice' forestry to ensure profitability is maximised.
5. The tax reduction could be structured on a sliding scale that encourages long-standing high-value woodlots rather than short rotation wood chip.
6. It would be available to anyone, thereby encouraging current farmers to plant a proportion of their hectare into wood. This would make the forestry footprint within the local communities much more in harmony within those communities rather than the 'us and them' mentality that has arisen due to the growth of the MIS industry.
7. Trading in forest projects could occur at will as there is no complication with an upfront deduction. This would allow the development of a robust secondary market.

Least preferred option

The least favourable option to the Australian community must be the currently proposed tax changes as they do nothing to remove the current rorts that are occurring within the MIS industry.

For the proposal to work, and to ensure that the current profiteering of the taxation system by MIS operators does not occur, it will require a significant investment in surveillance and independent assessment than currently occurs.

Given the dysfunctional nature of the current MIS legislation and tax policy, ASIC stated that its ability to regulate agribusiness schemes is stretched well beyond what is reasonable. 'Primary production schemes represent 8% of all schemes registered, but represent a very small percentage of funds under management (probably less than 1.5%). Numerically, visits to primary production schemes have represented 34% of all surveillances conducted by ASIC on responsible entities'[31].

1. We still do not see the need for the MIS structure to be available in any industry other than forestry.

2. Our greatest concern in the proposal is point 2. The proposed cap in the first year of tax deductibility to $6,500 with any excess being tax deductible in year two. There seems to be no clear basis why $6,500 should be the number, except that it reinforces the excessiveness of the current forestry MIS schemes charging $9,000. History has taught us that the arbitrary setting of hurdle rates will only induce more creative means by which MIS operators can get around them. It will ensure that forestry is pushed into more marginal forestry country which is cheaper.

[31] ASIC submission to Senate enquiry 853.

If the Government wishes to pursue this agenda then we would recommend that this dot point be replaced with:

‘Forestry MIS investors would be able to deduct the full cost of their investment up to that which is considered reasonable by an independent board of experts appointed by ASIC. Any amount in excess of this charged by the promoter will be deemed to be non-deductible.’

3. To encourage transparency and competition in the market, there needs to be a clear delineation between the fund manager and the farm manager. There must be no conflict of interest between the two. This will ensure that the fund manager is working purely on behalf of the investor to ensure they get the best deal. Therefore, MIS legislation needs to be amended so that retail fund managers cannot also provide farm management services to the fund.

4. To ensure that MIS do not profiteer at the expense of the taxpayer we also recommend that ATO provide a trustee arrangement for upfront subscription to these investments. That is, for each offering a trust fund is set up which is administered by the ATO. Promoters could only draw down on the funds by providing the trustee with an appropriate invoice for work completed. The trustee will only disperse funds if the expenditure aligns with agreed expenditure as set out in the PDS, and the expenses are seen as commercially fair and reasonable. The promoter, for example, would be allowed three draw downs which would equate to 20% of the funds for draw down one, 40% draw down two, and 40% for draw down three. This methodology is successfully used by the banking industry for buildings in course of erection (BICOE Loans) to ensure that funds are dispersed for the appropriate purpose.

5. Payments to financial planners would be capped at 4% in line with other retail investment products.

6. PS170 be re-written to ensure that promoters provide credible forward financial forecasts for investor scrutiny.

7. MIS projects cannot be offered to the public without including a land ownership component as part of the offering. This will remove the conflict of interest where the promoter is both the landlord and the agent working on behalf of the tenant (investor). Currently there is a clear conflict of interest which the promoters are exploiting to maximize their profit at the expense of the investor.

8. While we commend the development of a certification process for best practice, we do have some concerns with DAFF, given their behaviour and lack of objectivity in this review.

9. In addition to these points we concur with the recommendation from the Senate’s Minority Report ‘that ASIC be given statutory responsibility for issuing expert opinions for all Mass Marketed Investment Schemes. The onus will be on the scheme promoters, designers and/or managers to provide ASIC with the investment proposal so that the proposal can be independently and expertly assessed. An ASIC report on the proposal should include advice on general market conditions, the going market rates for establishment of the project, the yields and returns that could be realistically expected, and the projections for the future of the industry. Furthermore, the ASIC report must be

included in the final prospectus, or any other marketing information related to the project, and a copy must be provided to the ATO'[32].

10. ASIC, at the cost of the promoters, should also maintain a database of past and current schemes' financial performance.

Our concern with the above changes is that they will only increase the administration and compliance costs on the industry. We believe that option two would achieve better outcomes for the industry at a far less cost to the Australian Government.

Summary

Due to our limited resources and time we do not have the ability to carry out an in-depth analysis of the MIS taxation policy. Given the significant impact MIS projects are having on rural Australia we call on the Australian Government to finally bite the bullet and commission a complete and independent review of both the MIS Act and Taxation Action Act pertaining to these schemes. The terms of reference should be 'to ensure that both the needs of the forestry industry and existing industry can be met in a way that will optimise the economic, social and environmental outcomes to rural Australia.'

At the very least, we believe a review of all existing forestry MIS projects under Part IVA should be undertaken, as there are clear grounds that many of these have been charging grossly excessive upfront fees, and due to this have been identified as their dominant purpose being to avoid tax. Legislation should be introduced so that promoters, on behalf of the investors, make good any excessive deductions that have been claimed.

Given the lack of commercial sense in many of these MIS schemes, and the fact that it has been brought to the attention of the Government now on numerous occasions, we believe that this issue has now become a ticking time bomb. As the number of schemes coming to fruition rapidly increase there will become a growing disquiet among the Australian investment community about the lack of action taken by the Government to clean up agricultural tax schemes. Add to this the growing disquiet among rural constituents; to ignore these issues will be a costly one.

Background on Author – David Cornish B Ag Ec, BBM (Acct), Dip FP (Foundation)

David has had 15 years experience in the field of agribusiness finance. This experience has included senior roles at the National Australia Bank, the largest provider of finance to agriculture in Australia. These roles included: agribusiness economist, agribusiness credit advisor, national marketing manager, as well as senior leadership roles in regional NSW. David's last corporate role was as CEO of Rabo Financial Advisors, a joint initiative between Rabobank and Boyce Chartered Accountants, in the field of financial planning.

Since joining MS&A, David has continued this focus on financial analysis, especially in the area of wealth creation and capital management. He currently provides one-to-one advice to farmers, and consults to financial service providers. A major focus has been on the development of agricultural credit analysis programs and training for several of the major banks.

[32] Minority report p85

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Appendix 1

Forestry versus Broadacre

Forestry

Per Ha											
Cashflow	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11
Sale of Timber											12,077
Total Inflows	-	-	-	-	-	-	-	-	-	-	12,077
Sum	12,077										
Cash outflows											
Plantation est	1,600										
Overhead Costs		80	80	80	80	80	80	80	80	384	
Total Outflows	1,600	80	80	80	80	80	80	80	80	384	
Sum	- 1,600	- 80	- 80	- 80	- 80	- 80	- 80	- 80	- 80	- 384	12,077
Sum Income	12,077										
Sum Expenditure	2,624										
Sum Profit	9,453										

Agriculture

Per Ha											
Cashflow	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11
Gross Income	490	490	490	490	490	490	490	490	490	490	490
Total Inflows	490	490	490	490	490	490	490	490	490	490	490
Cash outflows											
Operating Costs	298	298	298	298	298	298	298	298	298	298	298
Total Outflows	298	298	298	298	298	298	298	298	298	298	298
Sum	192	192	192	192	192	192	192	192	192	192	192
Sum Income	5,390										
Sum Expenditure	3,278										
Sum Profit	2,112										
Forgone Profit	2,112										
Forgone Expenditure	654										
Forgone Economic Activity	2,766										

Ha	**Expenditure**	**Profit**	**Total**
1	$ 654	2,112	2,766
10	$ 6,540	21,120	27,660
100	$ 65,400	211,200	276,600
1,000	$ 654,000	2,112,000	2,766,000
10,000	$ 6,540,000	21,120,000	27,660,000
100,000	$ 65,400,000	211,200,000	276,600,000
1,000,000	$ 654,000,000	2,112,000,000	2,766,000,000

Forestry versus Dairy

Forestry
Per Ha

Cashflow	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11
Sale of Timber											10,929
Total Inflows	-	-	-	-	-	-	-	-	-	-	10,929
Sum	10,929										
Cash outflows											
Plantation est	1,600										
Overhead Costs	80	80	80	80	80	80	80	80	80	384	80
Total Outflows	80	80	80	80	80	80	80	80	80	384	80
Sum	2,784										
Sum Total	8,145										

Dairy
Per Ha

Cashflow	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11
Gross Income	3,542	3,542	3,542	3,542	3,542	3,542	3,542	3,542	3,542	3,542	3,542
Total Inflows	3,542	3,542	3,542	3,542	3,542	3,542	3,542	3,542	3,542	3,542	3,542
Sum	38,962										
Cash outflows											
Cash Operating Costs	2,815	2,815	2,815	2,815	2,815	2,815	2,815	2,815	2,815	2,815	2,815
Total Outflows	2,815	2,815	2,815	2,815	2,815	2,815	2,815	2,815	2,815	2,815	2,815
Sum	30,965										
Sum Income	38,962										
Sum Expenditure	30,965										
Sum Profit	7,997										
Forgone Profit	7,997										
Forgone Expenditure	28,181										
Forgone Economic Activity	36,178										

Farm

Ha's	Expenditure	Income	Total
1	$ 28,181	7,997	36,178
10	$ 281,810	79,970	361,780
100	$ 2,818,100	799,700	3,617,800
1,000	$ 28,181,000	7,997,000	36,178,000
10,000	$ 281,810,000	79,970,000	361,780,000
100,000	$ 2,818,100,000	799,700,000	3,617,800,000
1,000,000	$ 28,181,000,000	7,997,000,000	36,178,000,000

Appendix 2

Analysis Warrnambool Cheese and Butter Financials

	('000)	Ha	11 years
Sales Revenue	327,252	$ 2,531	27836
Paymen to Milk Suppliers	237,480	$ 1,836	20200
Operating Expenditure	77,124	$ 596	6560
Profit Before Interest and Tax	12,648	$ 98	1076
Interest	1,660	$ 13	141
Profit Before Tax	10,988	$ 85	935
Tax	3,490	$ 27	297
Profit After Tax	7,498	$ 58	638
Dividend	3,079	$ 24	262
Average production per Ha	5,846		
Total WCB Intake	756,000,000		
No Hectares	129319		
Profit Forgone	935		
Operating Expenidture Forgone	6560		

Dairy

Ha's	Expenditure	Income	Total
1	$ 6,560	935	7,495
10	$ 65,602	9,346	74,949
100	$ 656,023	93,465	749,488
1,000	$ 6,560,233	934,649	7,494,881
10,000	$ 65,602,327	9,346,486	74,948,813
100,000	$ 656,023,273	93,464,858	749,488,131
1,000,000	$ 6,560,232,730	934,648,582	7,494,881,312

Total

Ha's	Total
1	43,673
10	436,729
100	4,367,288
1,000	43,672,881
10,000	436,728,813
100,000	4,367,288,131
1,000,000	43,672,881,312

Appendix 3

Comparison of Great Southern Financials to AMP

	('000)	
GTS	2005	2,004
Revenue	318,849	208,344
Profit	175552	132,716
Tax	51245	39,490
Profit aft Tax	124,307	93,226
Total assets	1,180,776	646,564
PM	**39%**	**45%**
PM/Total Assets	**11%**	**14%**

	$(m)	
AMP	2005	2,004
Revenue	12,016	11,805
Profit	1578	1,453
Tax	768	545
Profit aft Tax	809	873
Total assets($m)	85488	75,265
PM	**6.73%**	**7.40%**
PM/Total Assets	**0.9%**	**1.2%**