

# **Parliamentary Joint Committee on Corporations and Financial Services**

## **Inquiry into Agribusiness Managed Investment Schemes**

Mr Chairman

The Australian Plantation Products and Paper Industry Council (A3P) and the National Association of Forest Industries (NAFI) appreciate the opportunity to appear before the Parliamentary Joint Committee on Corporations and Financial Services Inquiry into Agribusiness Managed Investment Schemes. Our evidence offered today will be specifically related to forestry based agribusiness managed investment schemes, or retail forestry schemes.

Between our two national organisations we represent all segments of Australia's large-scale forestry, wood products and paper industries – forest management, woodchip export, sawmills, veneer mills, panel board, pulp and paper manufacturing and specialty plantation products, including carbon.

The fact that our two organisations have come together to present a whole of industry perspective on agribusiness managed investment schemes reflects the fact that retail forestry projects are heavily woven into the commercial fabric of the forestry industry and are essential for the future development of the plantation resource in Australia.

Our joint submission provided to the Committee generally takes a broad industry-wide view in its response to the Inquiry's Terms of Reference. We trust the Committee will consider the submissions from individual companies and from significant parties with specialist knowledge in the corporate regulation of managed investment schemes to obtain specific details and commentary on all or part of the regulatory framework.

A number of commentators have attributed the collapse of Timbercorp and Great Southern to these companies being caught in the 'perfect storm', a combination of unprecedented circumstances – the ATO test case into agribusiness investments, the worst drought in a century and the worst global recession since World War 2 – putting overwhelming financial pressure on these companies.

In this respect, it should also be noted that these are not the only companies in Australia or globally that have fallen under the pressure of recent, unprecedented financial events. That said we support the Committee's objective of trying to understand what led to the collapse of Timbercorp and Great Southern so we can learn from these events for the future.

However, A3P and NAFI are concerned that the recent collapse of major agribusiness managed investment scheme companies, Timbercorp and Great Southern, is having profound, negative consequences – for investors in the projects these companies ran, for their shareholders, employees and creditors and for the confidence of the industry more broadly.

Agribusiness managed investment schemes, including the retail forestry investment sector, is subject to very high levels of regulation and scrutiny, and also to penalties for regulatory breaches.

Despite this, the collapse of the two companies (**not** necessarily the projects themselves) has raised questions from some commentators about the effectiveness of this regulation and scrutiny.

For the most part the plantation industry considers that the laws and regulations governing agribusiness managed investment schemes and the disclosure required by the promoters are robust.

However, if reform is considered necessary, it should be directed towards improving the level of protection of the interests of investors by improving transparency and compliance through enforcement of the existing laws administered by ASIC, and through better public information.

The plantation industry is willing to assist in this regard by enhancing the level of disclosure relating to investor interests. Specifically, this could be done by:

- disclosing how client monies subscribed to the plantation investment project are administered by the Responsible Entity in order to carry out contracted plantation services;
- disclosing the financial capacity of the plantation investment company to deal with adverse fluctuations in annual project sales; and
- disclosing more prominently the risks inherent in agricultural enterprises and investments.

The plantation industry is ready and willing to work with the Government and ASIC to ensure this enhanced disclosure is delivered via a reporting framework that is consistent with the ASX Principles of Corporate Governance and minimizes additional, unnecessary compliance costs.

The quantum and nature of remuneration of financial advisers is an issue for the broader financial products industry, and the question of adviser remuneration in the retail forestry sector needs to be considered in that broader context. However, the plantation industry joins with other industries in supporting a transparent remuneration system that encourages financial advisers to provide high quality advice that is in the best interests of their clients.

In addition, the plantation industry would support Government moves to improve the availability to the general public of socio-economic and environmental information about the plantation, wood products, and pulp and paper industry. This information should be compiled independently (e.g. by ABARE and BRS), and should include supply and demand conditions, the performance of the various industry sectors, and trends in the key financial and socio-economic indicators.

In examining the reasons for the Timbercorp and Great Southern collapses, A3P and NAFI hope the Committee also considers the essential role retail forestry projects have played in developing Australia's plantation industry, in addition to providing significant economic, social and environmental benefits for rural communities.

Though it is hard to unpack the effects of the unprecedented global economic crisis on investment in retail forestry schemes, our sense is that the collapse has had a detrimental flow-on effect on investment levels in the sector for FY2009 projects. This in turn will have detrimental flow on effects in relation to the economic, social and environmental benefits plantations provide for rural communities and our broader economy.

History has also shown us that sudden large falls in annual plantings create serious and potentially costly management problems for processors in smoothing future woodflows. Retail forestry plantations have become an integral part of Australia's plantation products and paper industry, and future investment and management decisions are being made with expectations about secure future wood supplies from retail forestry plantations.

The supply of stable long-term plantation woodflows of an appropriate quality relies on having a stable and predictable policy and regulatory environment surrounding this industry. This includes appropriate tax treatment that recognises the unique long-term and large-scale nature of plantation forestry and the challenge of attracting investment. The plantation industry supports the new specific statutory deduction for retail forestry – Division 394 of the *Income Tax Assessment Act 1997* – being left in place to provide certainty for investors and companies alike.

We would like to emphasise to the Committee that there has been a major expansion of plantation forestry in Australia in the past ten years and retail forestry schemes have been a key part of this expansion. Several figures from ABARE's Australian Forest and Wood Products Statistics (Sept-Dec Quarters 2008) illustrate this expansion. The area of hardwood plantations in Australia has increased by nearly 200% in ten years from 335,000 hectares in 1997-98 to 950,000 hectares in 2007-08. The production of logs from these plantations has also increased dramatically in recent years from a little over 1 million cubic metres in 2001-02 to 4.6 million cubic metres in 2007-08. The value of hardwood plantation log production has increased approximately six fold from \$58 million in 2001-02 to \$341 million in 2007-08.

These figures underscore the fact that new investment in plantation forestry is generating real environmental, social and economic benefits for Australia.

This Inquiry is necessary in light of recent events and their consequences. Australia's plantation products and paper industry welcomes the opportunity to contribute to the Committee's deliberations, and especially to provide information about the industry, about the retail forestry sector's role in it, and the importance of minimising the degree of 'sovereign risk' from changes in the policy and regulatory framework.