



Submission to

**Non-Forestry Managed Investment
Schemes**

Issues Paper

Submission made on behalf of:

Australian Bight Abalone Ltd

12 September 2008

Executive Summary

Australian Bight Abalone (ABA) supports the continuation of the current Managed Investment Scheme (MIS) arrangements for the aquaculture industry.

ABA wishes to register its concerns that the focus of the Issues Paper is directed at the use of MIS within the horticulture/traditional farming industry. ABA's MIS projects are non-traditional, non-forestry MIS and do not have the economic, environmental and social impacts of the traditional horticulture industry. Under those circumstances we propose that aquaculture MIS should be considered in a different category.

Participants in ABA MIS' have assumed a significant risk by investing in the farming system. The risk they are taking is higher than traditional horticulture.

Traditional finance was not available and continues to not be available to a project of this type. The MIS was integral to the establishment of ABA.

The costs of units in the ABA projects are in the highest range for the MIS industry. The average investment by an investor or grower in the ABA projects is approximately 1.9 units or \$47,500.

The taxation consequences of an investment in ABA MIS projects are not derived through special applications of income tax law. Rather, the resulting deductions that are allowed to investors rely on the mere application of the Simplified Tax System rules, available to all eligible Australian taxpayers.

In the aquaculture industry MIS provides a valuable and efficient tool to attract investment to regional Australia increasing employment and opportunities. ABA MIS projects are located in remote regional areas on ocean leases granted by the South Australian Government pursuant to the *Aquaculture Act 2001*.

ABA has a strategic plan to 2016 to fully develop its five sites within South Australia. The development and the commensurate on land facilities are expected to exceed \$250 million in investment and will require several hundred additional employees.

The current MIS aquaculture participants provide an environmentally sustainable product that has continued market growth internationally. Greenlip abalone, like abalone in general, is in high demand in Asian markets. Accordingly, the produce from ABA MIS' is targeted at an undersupplied and growing export market.

ABA uses a patented system of production, developed and commercialised in Australia. As a company, it is at the forefront of innovation and leads the world in the implementation and commercialisation of aquaculture production techniques.

Introduction

- 1.1 On 20 November 2007 in Labor's *Plan for Primary Industries* the Government undertook to consult widely with the investment and rural community to comprehensively review the costs and benefits of managed investment schemes (MIS) (not including Forestry). The Business Tax Division of The Treasury released an issues paper on 1 August 2008 to prompt responses from stakeholders.
- 1.2 This submission is made on behalf of Australian Bight Abalone Ltd (ABA) an aquaculture company specialising in the production of green lip abalone for export.

Australian Bight Abalone (ABA)

- 2.1 ABA is an aquaculture company harvesting commercial green lip abalone for international export. Its production is based on a unique series of floating artificial reefs known as the Abalone Aquafarm™ system.

ABA's aim is to be the world's largest producer of abalone by 2016.

- 2.2 Apart from conducting its own farming operations, ABA is a fund manager with more than 800 investors in its managed investment projects. It holds an Australian Financial Services License issued by the ASIC and has obtained Australian Taxation Office product rulings for each of its projects (2005, 2006, 2007 and 2008).
- 2.3 ABA is licensed to produce up to 1500 tonnes per year at its Elliston site with the ability to increase to 1800 tonnes after 2009.
- 2.4 The largest markets for abalone are China, Japan and Taiwan where abalone is considered a delicacy. Demand currently exceeds world production.
- 2.5 In 2008 ABA signed a landmark contract to supply up to 300 tonne per year to markets in the United States of America. That market has never been supplied in volume by any Australian supplier. Current world demand for abalone is expected to outstrip supply by up to 30% in the 2008 calendar year.

- 2.6 The ABA Project is located off Waldegrave Island, Anxious Bay, near Elliston on the Eyre Peninsula of South Australia. The Eyre Peninsula is the premier region for South Australian aquaculture, the Project site is renowned for the abundant wild Abalone that grows naturally in the sub tidal basins.
- 2.7 In February 2008 ABA became Australia's, and possibly the worlds, first carbon neutral accredited aquaculture firm. The Abalone Aquafarm™ system is recognised as the most environmentally friendly form of aquaculture in the world.
- 2.8 ABA currently employs a total of more than 50 full time staff and contractors and expects to significantly increase that number as early as February 2009.
- 2.9 The Elliston site is one of five sites leased from the South Australian Government. ABA has a plan to fully develop these sites by 2016. Commensurate with that development ABA will invest heavily in vertical integration and further regional development including a hatchery and processing facilities. This investment will confirm Australia's position as a world leader in aquaculture.
- 2.10 In supporting the regional development of the West Coast of South Australia ABA supports the community through its annual community grants program recognizing the vital work of volunteers and sporting associations in the community.

Tax

- 3.1 ABA wishes to register its concerns that the focus of the Issues Paper is directed at the use of MIS within the horticulture/traditional farming industry. ABA's MIS projects are non-traditional, non-forestry MIS and do not have the economic, environmental and social impacts of the traditional horticulture industry. Under those circumstances we propose that aquaculture MIS should be considered in a different category.
- 3.2 The tax consequences of investing in an ABA MIS project is not based on special application of income tax law. Rather, the main component of the tax deduction derived by investing in a project is through the widely applied Simplified Tax System ("STS"). The STS is broadly accessible to Australian Income taxpayers and affords simplified recording and reporting practices.

- 3.3 Participants in ABA MIS' have specifically identifiable assets. As a scheme participant or "grower" you acquire a number of growing platforms, juvenile abalone spat and the assigned right to carry out aquaculture activities. The grower's individual assets are separately identifiable for the entire duration of the project and carry the commensurate risk. Whilst ABA, as Managers, seek to procure economies of scale and overall scale based efficiencies, each grower will achieve a differing return on their investment. Some grower's may have fast maturing animals whilst some may not, ultimately the variability expected in any aquaculture business operation is borne by the individual growers. This is unlike some other MIS projects whereby a lot of the risk is taken out by applying 'averages' or some other mechanism.
- 3.4 Participants in ABA MIS' have assumed a significant risk by investing in the farming system. The risk they are taking is higher than traditional horticulture.

Traditional finance was not available and continues to not be available to a project of this type. The ABA MIS system was integral to the existence of this business.

This is a key difference between horticulture/traditional MIS industries and the aquaculture industry. They can easily gain access to traditional finance we cannot. Without access to traditional finance, the capacity to achieve strategic goals and the growth in industry in regional communities is not possible.

- 3.5 The forecasted return to the grower through ABA's MIS is 15% IRR which is above average.
- a) The increase in funds moving into MIS actually creates greater rural infrastructure and investment, further, each grower who invests in one unit of the ABA project is forecasted to receive \$113,000 in harvest income, over the 7 years of an ABA project, thereby increasing revenue to the ATO.
 - b) Generally speaking commissions in the industry are quite high. ABA pays a 5% up front commission to licenced product sellers with a 0.5% trail for 7 years, this would be an industry low.
- 3.6 The costs of units in the ABA projects are in the highest range for the MIS industry. The average investment by an investor or grower in the ABA projects is approximately 1.9 units or \$47,500.

Regional Development

- 4.1 Prior to the establishment of ABA operations in 2005 unemployment in the District Council of Elliston was at more than 20 percent. Traditionally the regional area was a land based farming community. However drought and economic circumstances have contributed to a significant departure from the region over the past generation.

ABA is now the key employer for the District and a major economic driver of the District economy.

- 4.2 Since its commencement ABA has provided opportunity for local unemployed. ABA has a policy of providing a skill base to its employees, taking previously unskilled labor and investing in their skill development.

In 2005 ABA employed eight people within the District. It now employs more than 50 people and expects to employ up to 100 people by the end of the 2009 financial year.

- 4.3 ABA has invested more than \$40 million in its farms since its commencement. As much as it possibly can, ABA sources the labor and the materials from the regional area including:
- Contract dive teams
 - Spat supply (juvenile abalone)
 - Maintenance contractors
 - Fuel supplies

"In 2006/07 the total regional economic impact of aquaculture (including direct and flow-on) on the Eyre Peninsula was \$185.8 million" (Economic Impact of Aquaculture on the South Australian State and Regional Economies, 2006/07, A report prepared for PIRSA Aquaculture.)

"In 2005/06, 75% of employment opportunities in South Australia, in aquaculture were in regional areas." (Economic Impact of Aquaculture on the South Australian State and Regional Economies, 2005/06, A report prepared for PIRSA Aquaculture.)

Future investment

- 5.1 ABA has a strategic plan to 2016 to fully develop its five sites within South Australia. The development and the commensurate on land facilities are expected to exceed \$250 million in investment and will require several hundred additional employees.

“Aquaculture contribution to the South Australian economy will double to about \$1 billion by 2015.” (BRW, April 3-9, 2008.)

“Australia has the opportunity to lead the world in supply of sustainable aquaculture. The South Australian Aquaculture Council forecast that the farmed aquaculture sector will generate annual revenue of \$60 million within a decade.” (AFR, 3 January 2007.)

Environment

- 6.1 In February 2008 ABA became Australia’s, and possibly the world’s, first carbon neutral accredited aquaculture firm. The Abalone Aquafarm™ system is recognised as the most environmentally friendly form of aquaculture in the world.
- 6.2 The Aqua Farm™ system is a self sustaining system which requires little if any feed. ABA uses no chemicals of any kind in its farming operation.
- 6.3 ABA being a sea-based aquaculture operation do not rely on excessive quantities of water to conduct its business activities. Therefore, our self-sustainability is further reinforced and our water consumption mainly relates to menial cleaning based tasks of the equipment and vessels.

Innovation

- 7.1 ABA uses a patented system of production, developed and commercialised in Australia. As a company it is at the forefront of aquaculture innovation and leads the world in the implementation and commercialisation of production techniques.
- 7.2 The Abalone Aqua Farm™ system owned by ABA is predicated on Australian patented technology. In partnership with AbTray® it provides the basis of the in sea farming system used by ABA in its production of greenlip abalone.

Export

- 8.1 The main markets for greenlip abalone is China, Japan, Hong Kong and Singapore. There is little if any domestic market in Australia.

“Exports directly into mainland China rose a staggering 3045% from 2003/04 to 2005/06.” (ABARE Australian Fisheries Statistics 2006)

- 8.2 ABA’s aim is to be the world’s largest producer of abalone by 2016. ABA intends to export all of its product to Asia and the USA.

8.3 Australia produces around 40% of the worlds' abalone. In recent years the United States and the South African traditional abalone industries have been closed down, in South Africa due to poaching in 2007. Other countries which produce high quality abalone in an aquaculture system such as Chile and Mexico suffer from issues relating to their distance from the Asian market.

8.4 The world's supply of abalone is between 18 – 22,000 tonne. Of that total a significant amount is either poached or inferior product produced in China for their domestic market.

"In 2007 the shortfall between supply and world wide demand of abalone was 30% equivalent to 6000 metric tonne." (www.fishtech.com/facts.html)

8.5 Australia is in a unique position to take advantage of the demand due to:

- a) its proximity to the market
- b) its experience in the aquaculture industry

8.6 ABA intends to significantly invest in the development of an "Ocean Grown" brand which will be recognized in the international consumer market as the highest quality aquaculture product from Australia.

ABA's farmed product can be harvested at any time meeting market demands, providing certainty of supply and consistency of size and quality.

For further comment please contact:

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