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## **Treasury Review of non-Forestry Managed Investment Schemes**

### **A submission by the Australian Sugar Milling Council**



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The Australian Sugar Milling Council (ASMC) represents the interests of the ten sugar milling companies in Queensland. These companies operate 24 sugar mills and produce sugar with a gross value of up to \$2 billion per year. Queensland sugar mills directly employ in excess of 3000 people in regional Queensland processing the crop produced by approximately 4500 cane growing entities. ASMC works with its members, other industry organisations and government to develop and promote policies that enhance the commercial development of the sugar industry in Australia.

The Government's review of non-forestry Managed Investment Schemes (MIS) is timely.

Never before has the value of retaining good quality agricultural land for food production been so important or critical to our Nation's future.

The negative impact of climate change on much of Australia's traditional food-producing areas has seen an accelerated and competing interest in the agricultural land along the eastern coast of Queensland, traditionally used predominantly for the growing of sugarcane.

The sugar industry does not believe that it should have any preferential status with regard to the use of this land and, as it has for the past 100 and more years, is more than prepared to compete on an even footing to maintain access to this land.

While it has been the Forestry Managed Investment Schemes that have posed the greatest competition for caneland to date it is the concept of the MIS approach to encouraging investment in agriculture that the Milling Council questions.

Unfortunately, the very nature of agricultural MIS means that the interests of the investors are not necessarily aligned with the concept of best practice or improved productivity in the agricultural activities of the MIS. The investor's assessment of the relative merit of any MIS tends to be made on the basis of the tax-effectiveness of the operation.

This has seen non-Forestry MIS in strawberries for example, have little regard for market dynamics and cause significant and sustained market oversupply leading to intense economic hardship for longer-standing strawberry industry stakeholders.

There is no doubt that MIS promoters market investing in an MIS on the back of the benefits to be had from the tax deductibility of contributions made to the MIS.

Under the current tax arrangement (over the long term), it can be argued that MIS have no explicit tax advantage over other horticulturalist enterprises. That is, all sole traders, partnerships and MIS based producers are considered primary producers, with all owners subject to the same treatment under the Income Tax Assessment Act 1997. As such, the real commercial advantage that MIS have over traditional farmers is their ability to attract capital and the depth of resources that are available to them.

As such, with the current tax treatment, smaller farming enterprises are likely to be out competed by MIS in the long run because of the difference in their resources and production volumes, not because of preferential tax treatment. The tax treatment available to members of a MIS has facilitated accelerated investment in large scale horticultural enterprises. This increased investment is putting pressure on traditional sole trader and partnership based farmers that compete with the MIS for resources.

The Australian Sugar Milling Council has previously made submissions to the Government detailing examples of the negative impact that agri-business MIS (particularly forestry) were having on the sugar industry and that the 'up-front' taxation incentives offered were leading to poor management of the plantations and a minimalist approach to natural resource management in the areas that plantations were being established.

However, it is the potential for an almost total collapse of the economies of some of the towns established around the sugar industry over the past 100 years that could be caused by the unplanned proliferation of forestry MIS amongst already established agriculture that is of most concern.

The Sugar Milling Council commissioned The Centre for International Economics (The CIE) to model and report on the likely impacts of the continued intrusion of MIS into the existing sugar industry. A copy of the report is enclosed with this submission.

While the report assesses the likely impact of Forestry MIS on the industry, a restoration of similar taxation treatment of non-forestry MIS would simply increase the opportunity for what is surely an unintended consequence of Government policy i.e. the destabilisation and/or collapse of an already mature and sustainable industry by the intrusion of tax-advantaged other forms of agriculture..

As mentioned previously in this submission, there is no suggestion that the sugar industry should be given some preferential consideration with regard to land use. However, the Milling Council is strongly of the view that at a very minimum the Government should be introducing some level of control over Managed Investment Schemes and their

eligibility for the particular taxation treatment currently available to Forestry MIS and under consideration once again for non-Forestry MIS. This control could best be provided for by the Government requiring a social, economic and environmental review of the impact of any MIS proposed in an already established agricultural region.

