

REVIEW OF NON-FORESTRY MANAGED INVESTMENT SCHEMES

Implications of Managed Investment Schemes (MIS) in Agriculture

I am the managing partner in 90 hectares of avocado orchards in the Manjimup/Pemberton region of Western Australia
MIS Promoters who are now entering the Avocado industry have a large commercial advantage over non-MIS producers (family farming businesses).

We have recently completed a large expansion to our avocado project and at the same time MIS promoter, Timbercorp has entered the avocado industry. This has brought into sharp focus the differences between MIS promoters and non-MIS producers in establishing new business enterprises.

These include –

- MIS investors receive 100% upfront tax deductibility for project development (created by the promoters structured prospectus)
- MIS promoters do not borrow funds and incur interest charges for project development (use tax driven investor funds)
- MIS promoters are not constrained by supply/ demand signals (investors own the production and therefore carry the risk)
- MIS promoters are not exposed to industry failure as they have made their profit upfront and ongoing through management fees.

- non MIS producers receive their project tax deductions over time.
- non MIS producers borrow funds for project development and incur interest costs.
- non MIS producers project is constrained by the forces of supply/demand.
- non MIS producers project is exposed to industry failure.

Timbercorp has created the environment for anti-competitive conduct having in stage 1 injected \$30 million through its Avocado Prospectus into an industry which turns over approx \$70 million per annum, giving it the potential to monopolise the industry. The fundamental financial driver that allows MIS promoters to thrive is their skill in harvesting tax effective dollars from high-income earners using agriculture industries such as avocados and wine grapes as their medium, as these industries have investor appeal. As the MIS promoters make their profits upfront and ongoing from the investors, the normal supply/ demand signals that genuine businesses live by do not apply.

It is interesting to note that these MIS promoters had their genesis in the Plantation Timber industries (where it could be argued that the upfront tax deductions have helped establish that industry and there is a net national interest in this occurring). The Plantation Timber Industry has grown from zero dollars, fifteen years ago, to billion dollar companies today, not from the sale of timber products, but from the high management fees charged to the investors in the growing of the crops. Though it may be 'in the national interest' that re-forestation has taken place across rural Australia through MIS it has been courtesy of generous tax concessions from the Australian government. However, MIS have now crossed over into mainstream agriculture with the potential to commercially destroy those target industries.

Primary producers as with all businesses live by the laws of supply and demand. The business model perfected by MIS promoters in the plantation timber industries enables them to circumvent supply/demand laws by passing that risk onto their investors. Without the normal checks and balances, this sets a dangerous and unacceptable business precedent.

As testament to this the Australian Wine grape growers recently called a crisis meeting in Melbourne requesting Federal Govt assistance for an industry bail-out. At the same time we have MIS promoters selling tax effective schemes to potential investors for new vineyard plantings, aided and abetted by the taxing policies of the Federal Govt.

Example Of Genuine Agriculture Building Rural Community

- I with another avocado producer and a packer/marketer have recently built a state of the art, avocado packing facility in Manjimup WA to pack and market our fruit and 30 other growers This facility has the capacity to handle 2 million trays of avocados p/a, making to one the largest dedicated facility in Australia.
- This year it will pack 500,000 trays of avocados @ \$30p/t = \$15million, raising to 1.2 million trays in 3 years @\$25p/t = \$30million.
- This sustainable industry will create 300 full time/part time jobs in the region over time
- The \$30million cash flow generated will be spent in the community and have a multiplier effect.
- If this was a MIS project the cash flow would be repatriated to the investors out of the community
- If MIS is allowed to continue it will threaten this project, with its tax and management driven schemes. Having little regard to the laws of supply/demand.

Example Of Non MIS Sustainable Tree Plantation Business

WA Plantation Resources (WAPRES) successfully operates a tree plantation business in WA competing alongside MIS companies for land and resources.

Issues for the Federal Government:

- Large areas of priority agriculture/horticulture land in the South West of WA have been taken out of food production and planted to trees by MIS promoters.
- Local road infrastructure paid for by rural communities are being destroyed by MIS promoters through timber haulage on roads not designed to carry such loads.
- Declining water resources are being consumed by MIS tax minimisation schemes
- Depopulation of rural communities has occurred as a result of mass tree plantings by MIS promoters
- Federal Govt has a 'duty of care' to protect genuine farming businesses from unfair competition from MIS promoters.
- Federal Govt has a 'duty of care' to protect investors who are seduced by 100% upfront tax deductibility for investing in MIS promoters schemes. Example – Pilandri Wines MIS schemes currently being wound up, leaving 3000 investors with total losses of \$160million, after charging investors outrageous management and project set up fees. Similarly Great Southern MIS are being restructured as a result of poor

commercial decisions being made on the basis of management fees and tax minimisation.

Questions for the Federal Government:

- Is it your intention to displace unsubsidised rural investment from family farming businesses with unsustainable tax driven schemes?
- Is it reasonable for the Australian taxpayers to fund tax minimisation schemes in agriculture for high-income earners at the expense of rural communities? (Welfare for the rich)

Federal Government are currently in the business of picking winners through their MIS taxing policies. This is having disastrous consequences on unsuspecting investors and rural communities.

MIS promoters are unable to function without upfront tax deductions and management fees, therefore their business model is unsustainable. Relying on new investors to continuously feed in new capital to generate cash flow.

I am happy to compete with anyone on a level playing field providing that it is under the same terms and conditions.

Please except this letter as a submission to your review by a genuine farmer, concerned for my community and the next generation of farming families.

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