



Queensland Strawberry Growers Assoc. Inc.

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Review of Non-Forestry Managed Investment Schemes
Business Tax Division
The Treasury
Langton Crescent
PARKES ACT
2600

Dear Sir/Madam

Submission on Non-Forestry Managed Investment Schemes from the Queensland Strawberry Growers Association (QSGA)

Economic impact

Tax issue

One of the drivers of a free market system is long term profitability. So you have basically two kinds of farming businesses. One that is real and has been built by blood, sweat and tears of traditional family farms with long term profitability as a goal and Managed Investment Schemes (MIS) that is artificial and has been built by temporary tax rulings and the capital of high net worth city based people.

The Queensland Strawberry Growers Association (QSGA) are not asking for MIS to be stopped but they simply ask that the playing field on the free market system to be leveled for everyone. If these artificial MIS's claim they will go bankrupt and lots of people will loose their jobs because of the loss in tax incentives, it is an indication that their long term goal was not long term profitability but quick and easy solutions to minimise tax. Why would the Australian government then let legitimate tax money that could have been used for much needed infrastructure be squandered away?

The Full Federal Court in Perth has ruled in favour of the Australian Taxation Office over deductions claimed by a taxpayer in a managed investment scheme. The judgment found the deductions against the MIS plantation in Kununurra, by accountant Gino Lenzo, were deliberately designed to maximise tax benefits, and had nothing to do with the activity of growing and marketing sandalwood in this particular case. The answer is simple: Management Investment Schemes are brazen tax minimising entities whose foundation is unsustainably built on favourable tax rulings and large sums of investment capital.

Markets issue

Before any MIS started in the strawberry industry on the 8th August 2006, the QSGA wrote a letter to Hon Minister Peter McGauran warning him about the situation and asking if this tax ruling could be suspended. Since then the Rewards Group Berry Project has sought investors on unrealistic and unsustainable price expectations with great success and today it is a very big enterprise in the Australian strawberry industry. For Queensland farmers the future outlook is bleak as the introduction of MIS has produced an over-supply situation and 2008 will go down as the worst year on record for pricing. As the secretary of the QSGA I receive phone calls daily



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from growers complaining about poor or low prices. The social impact will be huge in broken marriages, receiverships etc.

Pricing in our industry looks after itself, if growers have a bad year, then the next year they can't plant and produce more. If they have a good year, then the next year they might plant a little bit more. The market forces sort the industry out, if it is going good, it will grow a little bit bigger, if its going average, then it stays the same. MIS has definitely distorted the balance and the industry is suddenly now in a boom - bust cycle.

Input cost issue

The Queensland Strawberry industry is the largest growing region in Australia and we employ between 6000 – 8000 workers per season. The current MIS distorted the labour availability and cost of labour. Due to the sheer scale of the enterprise and their inexperience of attracting labour they had to increase their rates of pay to attract more workers. This creates an expectation on the working community to demand higher wages from existing enterprises. To compete, the rest of the industry had to increase their pay rates and labour costs have become a real issue now.

The cost of land has suddenly sky rocketed due to large blocks of land bought by the MIS enterprise to keep all its investors happy. Other inputs that are short of supply are runner plants, fertilizers, chemicals etc. A high demand of these inputs will ultimately lead to increased costs to growers.

MIS performance

Strawberry farming demands a high level of timely management in many different areas. To achieve this it takes growers years to become highly efficient and the larger operations took 6 - 10 years to reach their optimum capacity. The current MIS achieved this in one year with an abundance of capital behind them. The real issue now is management practices, new key staff members, new farming methods, lack of experience and equipment in many areas that create big costly problems. Many farming practices has been witnessed or reported by their workers as far from best practice management.

The marketing arm of MIS has also been an absolute disaster to industry as they have constantly been supplying fruit (Domestically and overseas) under market value in an attempt to secure market share for expected future production. This has resulted in lower market expectation loss of export markets and to date has resulted in poorer prices than the 2006 season.

Social Impact

Infrastructure issues

The MIS enterprise in the Queensland Strawberry industry has build huge packing sheds next to a small one lane bitumen road. Obviously this has created traffic problems because the road was built for use by land owners of small farm allotments and not large refrigerate trucks coming and going all the time. This will have a cost impact on infrastructure providers ie the local and State government authorities.



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There is simply not enough accommodation available for so many workers in the area and illegal housing practices is being reported all the time. Once again a huge impact on local government.

The Queensland Strawberry industry has taken many years in establishing existing infrastructure by developing runner plant farms to supply the industry with good healthy plants. MIS has come into the industry in such a big scale that they had to use existing runner farm knowledge and setup to make sure they get what is needed. This scenario runs of the back of existing infrastructure that cost many dollars and hours to set up without contributing a cent to it, and use organised agriculture's infrastructure and then have a further tax advantage to compete against existing farms.

Environmental Impact

Water & Land issues

Ninety-five percent of Queensland strawberries are grown in the coastal region between Brisbane and the Sunshine Coast. Much of the region drains into Pumicestone Passage and Moreton Bay – an area listed internationally as a wetland to be protected. Nutrients, soils and other contaminants polluting these waterways can affect marine life, contribute to toxic algae outbreaks, and have led to permanent harvest restrictions for local oyster leases. To grow strawberries you need water for irrigation and therefore dams from run – off water is used. The QSGA has spend many hours sitting on the Pumicestone catchment steering committee developing best practice management to prevent nutrient run – off in the catchment. These practices are communicated to local enterprises all the time and the QSGA have a few trials on improving soil erosion and nutrient run-off. The management practices by MIS witnessed so far clearly show the need to catch up with all these practices. It all comes down to too big too fast and the environment gets overlooked too easily.

Conclusion and Recommendations

These MIS in non-forestry should never have happened in the first place and the QSGA members are standing together on this issue, the only ones opposed have been those involved in MIS. The Queensland strawberry industry cannot understand why MIS would invest in an industry that is already at full capacity. Management Investment Schemes are tax minimising entities whose foundation is unsustainably built on favourable tax rulings and large sums of investment capital.

Any MIS coming into an industry must happen with proper consultation to the particular industry first. For example, if the current MIS negotiated with the strawberry industry first and offered to built a proper value adding plant that will help the whole Queensland Strawberry industry travel “from the paddock to the pump” by producing ethanol or other biofuels and offered to start their own runner farms the scenario could have been of benefit to all growers, consumers and Government!

Lourens Grobler
Secretary - QSGA