

Jon Carmichael
Proprietor
Strawberry Fields
133 Laxton Rd
Palmview, Qld 4553
Mobile: 0418 877769
Fax: (07) 54945425
Email: jon@strawberryfields.com.au

26 August 2008

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

Dear Sirs,

In view of the government's decision to seek input to "A Review of the Costs and Benefits of Managed Investment Schemes (MIS)", Strawberry Fields wishes to put forward the following submission:

I have recently returned home to take on the family business after spending over a decade managing national horticultural supply chains for corporate entities such as Chiquita Brands South Pacific, Angas Park Fruit Company and most recently Golden Circle Limited.

During this time I have been in a unique position to compare the workings and efficiencies of Corporate versus private horticultural farming entities given that supply was received from both.

It is with this understanding that I wish to answer your questions and put forward my thoughts regarding MIS schemes in Agriculture generally but more specifically in the Qld Strawberry Industry.

Question 1 – Do MIS have a Tax Advantage?

Firstly I would like to say that this question is of much lower concern than the questions to follow, as the government can make changes to the tax laws to suit the countries requirements.

The real issue is the impact of MIS operations on the supply and demand equation of a specific crop and the impact of this on the long term sustainability of that crop.

Given it's the governments role to create the tax laws and manage them I would have thought that your own team of accountants and lawyers could answer this for you based on current law.

From my limited knowledge of tax law I would have thought that the inputs are of a capital nature and should be accounted for on the same grounds as traditional farmers are.

Because they are not, means MIS operators have a considerable tax advantage.

The obvious question is; Why would the government let legitimate tax money that could be used for much needed infrastructure be squirreled away?

Question 2 - How well do MIS perform?

To answer this I shall draw on my experience with corporate farms and what we currently observe of the MIS operating in Strawberries.

During my corporate career I was involved in the acquisition and management of several crops including Bananas, Apricots, Oranges and Blueberries. The reasoning for a corporate to get involved in the growing side was normally to increase market share and to gain a better control on supply for the marketing side of their business.

Of those operations I am aware that the bananas have now halved in size, the oranges have been sold off to an MIS, the apricots have been sold off to a private operator, only the blue berries are still operating and this is mostly due the fact they hold approximately 70% of domestic the market.

The reason for the demise of these entities is simple, they could not make money.

To say that large economies operations bring efficiency in horticultural production is a statement I am yet to see proven from a financial perspective in Australia?

Horticulture is a high labour input industry which needs to be strictly managed. Management decisions must be timely and made with a good understand of the farming process. These are but two of the many things that are less effective in the corporate model, but have a significant effect on performance.

Economies of scale are related to the capital applied and generally speaking there are several levels in farming where economies of scale can be good. In Australia the small low capital family model has stood the test of time and is still with us, showing that this model can be very efficient and sustainable.

In horticulture, world wide efficiencies from large production models have generally only been successful when the crop is either wholly mechanised i.e. Wine, Grapes and Macadamias or crops that are located in areas with an abundance of cheap labour i.e. Bananas and Oranges.

For Strawberries in Qld the performance of the MIS involved has been terrible; their farming, financial and marketing results are considerably poorer than the average farmer. Growers next door to the current MIS Strawberry operations have witnessed farming and management practices that are the absolute opposite to best practice.

A significant issue is the poor marketing performance by the third party employed to market the MIS Strawberries. They have constantly supplied fruit under current market value in an attempt to buy future market share for expected future production, which then pulls the market expectation lower and to date has resulted in a average market value well below 2006 pricing and yet we have had the same increases in costs as all other industries.

How well MIS schemes are performing in other crops is difficult to asses as they are mostly tree crops and it will be many years before their real performance can be assessed. I do not have any first hand knowledge of how these other ventures are performing other than information supplied to me by those that are close. Some of these accounts are not very flattering.

Question 3 – What is the impact of MIS on inputs, the environment and regional areas?

To answer this question I will only consider the effects to strawberries in our Sunshine Coast region.

Inputs

Our region, the Sunshine Coast, is the largest Strawberry growing region in Australia and we account for over half of Australia's production.

The key input effect by the MIS activities is availability and cost of labour.

Due to their inexperience and scale, labour availability has been tighter. To ensure they get their numbers of staff, the MIS have increased their rates of pay to attract workers, much of the industry have had to increase pay rates to compete.

Thankfully this issue has been recently alleviated by the Caboolture district being included for extensions on working holiday visas.

Cost of land has also seen a substantial increase which has also been fuelled by the MIS operators.

Another issue relates to availability of service providers; the added demand has made it more difficult to obtain services as many are busy working for the MIS schemes.

Effect on the environment is difficult to answer, however there is an obvious increase in water, fuel and electricity consumption. If this does not create a tangible benefit to the community, then it is simply waste.

Regional Areas

Strawberries are a very large contributor to the Sunshine Coast economy; in general when the growers are making money everyone connected to the Strawberry industry prosper.

The Strawberry industry has been operating and growing successfully now for over 50 years and has continued to evolve into the effective industry it now is.

However the introduction of MIS into our industry has produced an over supply situation that the Supermarket chains have used to push prices lower than required. This impact has had the single biggest impact on the sustainability of our industry since its inception.

The future outlook is bleak at best and grower's confidence is at an all time low. For the regional community this means less investment, less employment and less general spend by the very same people who have been investing sustainably in our region for so long.

The 2008 Strawberry production year will go down as the worst year on record with as many as 90% of growers losing money. This follows a poor year in 2007 which will mean the end to many growers and a loss of generations of valuable farming experience.

Why would the government allow such a great regional industry to be disrupted in this manner?

Question 4 – What is the impact on Commodity Markets?

This is by far the most important question and will have the biggest impact.

Of all the MIS schemes in horticultural, the only cash crop is Strawberries.

As such the Strawberry industries will be the first to show the real impact of MIS schemes on a commodity market.

MIS started in Queensland Strawberries in 2007 which was a poor year by most grower expectations, showing the first signs of the issues to follow.

This year is not yet finished however our business is already running significantly behind last year and by all reports most growers are in the same situation.

At this stage its not a just the over supply that is causing the issue, it is the expectation by the supermarket chains and the general market of an oversupply that has already seen average prices lowered by more than 15% of 2006 averages.

The crucial supply and demand equation that has managed the sustainable growth of this industry over time has been severely disrupted. We now have a grower segment where making a profit from lease and management fee's comes before profitably growing and selling strawberries.

How can the economic process of supply and demand work in this environment?

This is exactly the type of situations the chain stores like to see, and puts more power in the hands of the buyer.

However the market can only absorb a certain amount of fruit given the margin expectations of the Chains and so traditional grower's fruit is simply being replaced by MIS fruit and the consumer is no better off.

Strawberries have a low potential for export, as little as 5% are exported. The reason for this is simple, with our cost of labour and location; we cannot compete in most markets other than NZ.

This export cost issue is the same for most horticultural commodities. However each horticultural commodity is linked, if there is an oversupply of a number of Commodities at the one time all commodities marketed at that time will be impacted by lower prices as consumers will only consume a certain amount of produce, what ever the mix.

One of the key marketing angles of the MIS schemes is their focus on export markets for selling their product, however I believe this to be totally misleading and an insult to the current long term produce marketers that handle these products. Most horticultural crops in Australia are currently exported to some degree; the reason why there is no volume is because our production cost limits the ability to move volume profitably.

To say that MIS expected economies of scale will cure this issue is a complete fallacy; the minimum cost to export is the sum of pick and pack labour, packaging, freight and agency fees.

When labour comprises upward of 50% of total operational cost for most Australian horticultural crops, the small gains MIS may make in these areas will not create the difference between our \$16.28 minimum hourly rate and that of an overseas competitor that pays approximately the same rate for a days work.

The real question is: What happens with all the produce that is now in development phase if the produce is not exported?

If this produce is forced back on to the local Australian market, the oversupply will be horrendous and the impact to long established farming businesses will be unrecoverable.

What of the impact on the MIS? The managers of the scheme's will not be impacted greatly because they have already received their lease and management fees, the share holders will make nothing but they have already gained their tax deduction and they weren't expecting to make money anyway.

Conclusion and Recommendations

If the MIS are allowed to continue not only will we lose the current sustainable supply chain's we have relied upon for many generations, but we lose a generation of knowledge that cannot be replaced, and be left with corporate profiteers.

When food production is becoming an international issue with most countries starting to better protect their producers, do we want to go down a path of destabilisation?
Is this what we want for the future of food production in Australia????

I can understand why MIS could be advantages for the starting up or gearing up of some industries.

However consideration of where MIS is appropriate should be an industry by industry approach with lots of consultation with the industry involved prior to making any decisions.

In a mature industry like strawberries the evidence is all ready here to show the big mistake it is, and needs to be stopped immediately before any further damage can be done.

The money that is being used is money that should be going into Government Revenue, if the Government wants to inject more money into the regional areas why not start by offering it to the businesses that have got us here to date.

This money could be used to better equip our current farmers for efficiency and I am sure you will find the money will be much wiser spent and go a lot further.

Yours sincerely

Jon Carmichael
Proprietor
Strawberry Fields