



Victorian Farmers
Federation

**Non-Forestry Managed Investment
Schemes (MIS) submission**

September 2008

The Victorian Farmers Federation

The Victorian Farmers Federation (VFF), Australia's largest state farmer organisation and the only recognised, consistent voice on issues affecting rural Victoria and the VFF welcomes the Australian Government's inquiry into Non-Forestry Managed Investment Schemes.

The VFF represents 19,000 farmer members across 15,000 farm enterprises. Victoria is home to 25 per cent of the nation's farms. They attract neither government export subsidies nor tariff support. Despite farming on only three percent of Australia's available agricultural land, Victorian's produce 30 per cent of the nation's agricultural product. The VFF represents the interests of our State's dairy, livestock, grains, horticulture, chicken meat, pigs and egg producers.

Introduction

The Victorian Farmers Federation (VFF) welcomes the opportunity to provide comment to Hon Chris Bowen, the Assistant Treasurer and the Minister for Competition Policy and Consumer Affairs about the Non-Forestry Managed Investment Schemes (MIS). There has been significant debate around the impact of MIS. In particular, this submission concentrates on answering the following questions:

- Whether MIS have a tax advantage;
- How well do MIS perform;
- What is the impact of MIS on inputs, the environment and regional areas; and
- What is the effect on commodity markets?

1. Main concerns of VFF

The VFF is concerned that any tax advantage held by non-forestry MIS will create distorted competition between MIS and traditional farmers for resources. The VFF is also concerned that allowing market distortions caused by MIS may lead to long-term structural issues, including over supply of commodities.

2. Do MIS have a tax advantage?

In a series of reports about MIS, *The Weekly Times* produced research demonstrating that MIS schemes charged double the amount of establishment costs per hectare in producing table grapes than what it cost farmers, plus license and management fees. The MIS investors in this scheme were able to claim a 100 per cent tax deduction, while farmers can only claim part deductions on inputs such as trellis costs and irrigation establishment.¹ In this case study, it is clear that at the very least MIS have a tax advantage over traditional businesses growing the same commodities.

This example highlights the argument noted in the Issues Paper on Non-Forestry Managed Investment Schemes that 'the fees charged for the initial period in an MIS project generally being disproportionately higher than the fees charged in following years, and an impression that the initial fees are used to fund what are regarded as non-deductible capital items.'²

Not only do MIS have a tax advantage, but from a farming perspective they have an unfair advantage over traditional agribusinesses. The Issues Paper notes that 'to use a MIS structure, farmers would need to form a public company that has an Australian financial services licence authorising the company to operate a MIS...the costs of undertaking this would be substantial.'³

3. How well do MIS perform?

The VFF is concerned that the lack of transparency surrounding MIS makes it difficult to determine whether MIS are commercially viable and structured towards long-term sustainability, or if they are set up to provide a tax break and the actual agricultural businesses is the secondary concern. Tax returns and other relevant information regarding MIS are often not publicly available.

¹ *The Weekly Times*, 'Table Grape Glut: Growers Slam Scheme,' Kate Adamson, December 28 2005, page 12.

² Treasury document, Non-Forestry Managed Investment Schemes Issues Paper, Page 8

³ Treasury document, Non-Forestry Managed Investment Schemes Issues Paper, Page 8

The agricultural community has previously argued that the Australian Tax Office has failed to adequately assess whether the fees and structure of MIS are reasonable and reflect industry standards without distorting them. *The Weekly Times* gave considerable coverage to this issue in its series on MIS, noting that a particular concern for agribusiness is that investors in these schemes can receive full tax deductions on costs that are well above the normal industry costs, and that these fees can then be used as capital to outbid farmers for resources such as land and water.⁴

The original purpose of MIS was to enhance regional wealth creation by increasing plantation resources. As almost 50 per cent of MIS now accounted for by non-forestry projects, it is time to question whether this indirect form of support continues to effectively deliver targeted assistance to an area of perceived market failure.⁵

4. What is the impact of MIS on inputs, the environment and regional areas?

- The VFF believes that current MIS structures do not promote sound investment decisions in rural and regional areas, and as such have created a distortion of land values and/or commodity markets;
- In the case of land values, the dollars generated by MIS have enabled these schemes to bid from a position of relative advantage in terms of their access to capital. In terms of commodity prices, MIS have seen investment continue into industries on unrealistic expectations of price, resulting in an over-supply of certain commodities and a distortion of basic market signals; and
- Water use

5. What is the effect of MIS on commodity markets?

One of the most significant impacts for the farming community that non-forestry MIS have on commodity markets is that of oversupply. Non-forestry MIS have the capacity to dramatically increase production of the commodities they manage. This capacity is evident in the volume of MIS-owned plantings. Timbercorp states that around 30,000 hectares are planted to horticulture under MIS, accounting for six per cent of total Australian horticulture plantings, and that Timbercorp is responsible for over 18,000 hectares of this.⁶ The potential for MIS to create market oversupply is also demonstrated in the share of industry value MIS's hold – in 2004-5 MIS held 50 per cent of the industry value of almonds and 65 per cent of the industry value of olives, for example.⁷

Any increase in supply when it is driven by tax purposes rather than market fundamentals, has the potential to lead to oversupply impacting on the returns of not only MIS investors but other operators who have established business without the same tax advantages. This would be financially devastating for farmers. But as investors in MIS are likely to have these types of investments as a part of a portfolio and have other incomes streams as their main source of funds, they are not impacted to the same degree as traditional farm investors.

⁴ *The Weekly Times*, '\$1.2b War Chest to buy Land. Water,' Paul Sellars, March 29 2006, page 4.

⁵ NFF submission

⁶ Timbercorp, Australian Horticulture and Managed Investment Schemes Fact Sheet, http://www.timbercorp.com.au/userdocs/1/company_information/documents/Fact%20Sheet%20MIS%20and%20Horticulture.pdf

⁷ Timbercorp, Australian Horticulture and Managed Investment Schemes Fact Sheet, http://www.timbercorp.com.au/userdocs/1/company_information/documents/Fact%20Sheet%20MIS%20and%20Horticulture.pdf

6. Forestry MIS

The VFF would like to highlight ongoing concerns with maintaining the MIS structures for forestry, particularly with the introduction of the Carbon Pollution Reduction Scheme (CPRS). The CPRS Green Paper acknowledges concerns with potential land use distortions as a result of carbon trading. Therefore, maintaining the distortionary MIS systems for the forestry sector will compound the land use distortions. This can impact negatively on rural communities and the environment.

A report prepared by the Gardiner Foundation has investigated the Economic Impact of the Dairy and Blue Gum Plantation Industries in South West Victoria. One finding of this report highlighted the regional economic impacts of land use change from dairy to plantation forestry.

“In 2006, for every one dollar of output generated by the dairy sector a further 50 cents was spent on inputs sourced from within the region. For every one dollar of output generated by the blue gum plantation industry a further 38 cents was spent on inputs sourced from within the region.”⁸

7. Conclusion

The Victorian Farmers Federation believes the current MIS structures do not facilitate investment decisions based on the relevant industry’s market fundamentals. This can lead to long-term problems in industry structures and oversupply in commodity markets. The main casualties of these structural issues are the farmers who have entered or established businesses without the benefits of the tax advantages provided by MIS. Hence, the non-forestry managed investment scheme system will need to be more closely examined to achieve equitable outcomes.

⁸ Gardiner Foundation “*The Economic Impact of the Dairy and Blue Gum Plantation Industries*” prepared by K O’Toole, M Keneley, M MMcKenzie and P Hellier, Deakin University. April 2008.
www.gardinerfoundation.com.au