Senate Rural and Regional Affairs and Transport References Committee

Questions on Notice – Thursday, 11 April 2013
KUNUNURRA

Inquiry into the Examination of the Foreign Investment Review Board National Interest Test

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SENATE RURAL AND REGIONAL AFFAIRS AND TRANSPORT REFERENCES COMMITTEE

Inquiry into the Foreign Investment Review Board National Interest Test

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Questions Taken on Notice – TFS Corporation

1. HANSARD, PG 29–30

CHAIR: Without breaching commercial confidentiality tell me about this. I am bloody happy with my $100,000 because it was really only $50,000 because I got a write-off. How much does it cost me for 15 years of management fees to get the end product?

Mr Ellison: It is in the PDS. We will give you a calculation on that.

…

CHAIR: The question I want to get to, though, is: what did it cost me as the investor to get to the harvest and, with 50 per cent of your investment in MIS, how much does that prop you up with your annual cash flow? If you lost your MIS cash flow for management fees, would you fall over as a—

Ms Higgins: Part of the structure of our PDS is that you can choose not to pay those annual fees; you can defer those fees. So if you chose—

CHAIR: Yes, but that is a bigger trap.

Mr McKenzie: For the promoter it would be a bigger trap, because then your cash flow would disappear.

CHAIR: The capitalisation of the interest on that would be interesting. Anyhow, I would be interested to know—

Mr Ellison: We will take that on notice and we will provide that to you.

…

Senator EDWARDS: You are going to take that on notice: what does 100 grand buy me?

Mr Ellison: Yes, we can do that.

Senator EDWARDS: And what percentage of that $100,000 is management fees by the end of 15 years, by the time you get to harvest. That is the question.

Mr Ellison: I might just point out that the chairman has said on the record in relation to that first harvested timber:

… the Board is confident that the pricing to be achieved for the sale of our first harvested timber will far exceed that original forecast in the PDS. The Board's current expectation is that a price more than 100% above the PDS forecast re-based for current exchange rates will be achieved.

CHAIR: But the dividend of that first harvest will go to the first investors, not across the—

Mr McKenzie: Exactly. You have invested in that first harvest; that is right.

Mr Ellison: Everybody knows that is how it operates. That is why I said that your money is tied up for some time.

CHAIR: So, even if it were commercial in confidence and in camera to this committee, you could probably tell us, because you will have the figures done at the first harvest, what it costs the investor in management fees in the meantime.

Mr Ellison: We can take that on notice and see what we can provide to you. We can do that, but it will just take some calculation, as you would appreciate.

CHAIR: We would probably deal with that, if you wanted us to, as commercial in confidence.

Mr Ellison: Yes, if you could, I think that would be of assistance…

2. HANSARD, PG 32

CHAIR: … With a lot of corporate farmers, their books always look well because they take the estimation of the capital appreciation annually to the bottom line rather than the cash flow. Do you take the appreciation of your capital to the bottom line to your book annually?

Senator EDWARDS: Capital growth on your land.

Mr Ellison: We will take that on notice. Mr McKenzie will check that. We can get back fairly quickly to the committee on that. We want to make sure that we get that absolutely right. I get the question.

3. HANSARD, PG 33

Senator SIEWERT: Let us say it was leasehold land that the lessor wanted to keep in production and it was suitable. Would it then go straight back into sandalwood?

Ms Higgins: Do you mean like the next day sort of thing?

Senator SIEWERT: Not the next day, but as and when appropriate.

Ms Higgins: I think it will be just more a matter of paddock by paddock assessment—assessing the situation in each paddock. But it will depend on the time of year we harvest, because, as you can imagine, there is a lot to clean up from a plantation harvest. We need to clear everything off the site. In some cases we will need to do some work on fixing up the irrigation systems and perhaps some laser levelling.

CHAIR: Who pays for that? Is that in the management fees?

Ms Higgins: No. The clean-up fee is our cost.

CHAIR: Haven't you thought about it?

Mr McKenzie: No, it depends on the project. I think for the first one the investor will end up paying and it will be deducted from the proceeds. This is in relation to cost.

Ms Higgins: I think the investor only pays for the harvest.

CHAIR: Is that for some of the projects where the investor will be cleaning the land up after it has been harvested?

Mr McKenzie: We do it.

CHAIR: The promoter does it? In all cases?

Mr McKenzie: We do it.

Mr Ellison: TFS does the cleaning up in all cases. In the first project it is at the cost of the investor, but thereafter, I understand, it is at the cost of TFS. We will check on that and make sure it is right, and get back to you if it is not.

4. HANSARD, PG 33

CHAIR: With the timber we may have been fairly intrusive as a committee, not the members of this committee. We actually got the figures and discovered the free capital pool that came out of the excessive management fees. Do you accumulate capital out of your management fees without breaching the stock exchange or something?

Mr Ellison: We will take that on notice.

5. HANSARD, PG 33

Senator SIEWERT: …What is the proportion of what you have in the Ord under leaseholder and under freehold?

Ms Higgins: I would have to take on notice.

Mr Ellison: We would need to take that on notice.

Senator SIEWERT: We have been talking about the investment in sugar. What triggered our visit was foreign investment, obviously. We have been taking this morning about what percentage makes the mill viable, or what tonnage makes the mill viable and at stage one whether they will go in or not. If you have a certain percentage of the land that you are going to continue with, I am interested in looking at what remaining area there is.

Mr Ellison: We can provide that.

CHAIR: Obviously the market will make it out on the freehold and whether the person who owns the freehold leases it to you, or to sugar, or to Tom, Dick and Harry.

Senator SIEWERT: Yes, that is why I am interested in both.

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Questions Taken on Notice – TFS Corporation

1. HANSARD, PG 29–30

1. How much does a $100,000 investment cost me in management fees for 15 years (to get the end product)?

   For the TFS Sandalwood Project 2013, there are two options regarding annual management and lease fees:

   a. Grower defers management fees:

      A grower can elect on an annual basis not to pay the annual management and lease fees. For each year a grower elects to defer payment, TFS Properties will receive an annual deferred investment option fee; a percentage share of the gross proceeds of sale at harvest. Potentially the grower can pay no ongoing management and lease fees for the project, however TFS will receive a larger share of the grower's gross proceeds of sale at harvest; up to 19%.

   b. Grower pays annual management fees:

      Assuming the grower is not GST registered, they could purchase fourteen 1/12 hectare lots in the TFS Sandalwood Project 2013. This investment would costs $100,101 (including GST). Assuming each year the grower pays the annual management and lease fees, they would pay an additional $120,268 over the 15 years of the project. This information is available from the investment calculator on TFS Corporation Ltd's website:

      http://tfsltd.com.au/tfs-2013-investment-calculator-disclaimer

      It is worthy to note that in relation to the above investment, a grower would receive the following investment protections:

      - 50% of the establishment fee is deposited with an independent custodian and released progressively to ensure planting is completed.
      - One year of lease and management fees paid up-front and deposited with independent custodian. In the event of the Responsible Entity becoming insolvent, these funds would be used to pay one year's lease and management costs to ensure plantation quality is maintained whilst a replacement Responsible Entity is appointed. If not required prior, these funds will be released in the project's final year to meet management and lease costs.

- Ability to make the payment of annual fees compulsory in the event of the Responsible Entity becoming insolvent. This will ensure ongoing management costs can be met without placing undue financial obligations on the replacement Responsible Entity.
- Register grower's interest on title via collateral sub-lease.

2. What does it cost a $100,000 investor to get to harvest?

For the TFS Sandalwood Project 2013, there are two options:

a. Grower defers management fees:

Assuming the grower is not GST registered, they could purchase 14 1/12 hectare lots in the TFS Sandalwood Project 2013 at a total cost of $100,101 (including GST).

b. Grower pays annual management fees:

Assuming the grower is not GST registered, they could purchase 14 1/12 hectare lots in the TFS Sandalwood Project 2013 which would cost $100,101 (including GST) in establishment and $120,268 over the 15 years of the project in annual fees and rent. Total cost of $220,369 (including GST).

c. Independent agribusiness experts estimate the grower's harvest proceeds will deliver the grower a reasonable return on investment of between 10.84%-12.00% per annum, or in other words a gross return of $630,000 to $$868,000 for their original investment of $100,000.

3. What is the annual cash flow to TFS from MIS?

Each year TFS announces to the ASX how many hectares of retail MIS has been sold and for 2012 how much was raised. For the past two years TFS has sold and raised:

Financial Year	Hectares	A$ Raised (GST inclusive)
2012	116	$9.3m
2011	88	$7.1m

4. What percentage of a $100,000 investment is management fees?

Using the options outlined in question 1 above, for the TFS Sandalwood Project 2013:

a. Grower defers management fees:

Percentage the grower pays in management fees after year one is 0%. Note TFS Properties Ltd would receive a percentage share of the gross proceeds of sale at harvest in exchange for ongoing management and leases fees being deferred.

b. Grower pays annual management fees:

Assuming management fees are in addition to the initial establishment fee, the percentage the grower pays in management fees is 54.6%; total management fees over 15 years of $120,268 (including GST) divided by total investment of $220,369 (including GST).

c. It should be noted that in return for the management fees TFS takes care of all the maintenance obligations necessary to deliver a fully mature plantation in 15 years time that can be commercially harvested and deliver a reasonable rate of return on investment to the grower.

2. HANSARD, PG 32

Do you take the appreciation of the capital growth on land to the bottom line in your books annually?

For the 2011 and 2012 financial years, land has not been revalued in TFS Corporation Ltd's accounts. Please note each year the directors of TFS Corporation Ltd make an assessment of the property's market value with reference to market appraisals obtained from an independent source. The market appraisal was based on recent sales history of similar properties in the area. See Note 11 of TFS Corporation Ltd 2012 Annual Report.

3. HANSARD, PG 33

Does the investor or TFS pay for the cleanup costs and land restoration after the harvest?

TFS pays for cleanup and land restoration costs after the harvest. For TFS's first three projects; EKS, TFS Goldcard 2 and TFS 2000 a land degradation fee is deducted from the grower's harvest proceeds to compensate TFS for this operation.

4. HANSARD, PG 33

Do you accumulate capital out of your management fees without breaching the stock exchange or something?

TFS does not accumulate capital out of the management fees as not all growers elect to pay management fees, with TFS covering the management fees of those growers who defer their fees.

5. HANSARD, PG 33

What is the proportion of what you have in the Ord under leaseholder and under freehold?

TFS land holding in the ORIA consists of the following tenures:

	Hectares
Freehold	1,484.7
Leased	3,701.5

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Questions Taken on Notice – Wunan Foundation

1. HANSARD, PG 53

Senator EDWARDS: We are getting a little bit off the page of what we are here for and I want to give the other senators an opportunity to ask you questions, but if you could review the chamber of commerce's evidence from this morning when you have the time and get back to the committee I would be interested to have your comments on that. It was a concern to me—I have not discussed it with other senators—that if we leave these unchecked, no matter what government is in power, it is going to be an issue for all Australians and all Indigenous Australians, if what we heard this morning is accurate and being reflected as a growing culture here. You are well placed to be able to comment on how you see the trends as well.

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Answer:

Thank you for asking us to review the Chamber of Commerce's evidence. It seems to us that there were three key aspects to their statements that can be commented on and are addressed below.

Firstly, it was stated that the challengers faced by Indigenous people was 150 years in the making and that it would be 150 years in the fixing. This was seen as convenient. Wunan would agree that the current situation has been in the making in the East Kimberley for the last 40 years. We would however feel strongly that we do not have 150 years to fix it. The collective that makes up Australia will need to move a lot quicker, and we would like to see substantial progress made in the next generation. This will be very dependent on the resources available, tough love policies and Aboriginal people taking back responsibility for their choices in life.

Secondly, comments were made about the number of children reaching year 12. Wunan would agree that these are small numbers of people reaching a functional year 12 qualifications and even more concerning is the number of young people who reach university. This is an area where little progress has been made.

Lastly, Wunan would agree that there is a large degree of disengaged Aboriginal people who are welfare dependent. This is why we are working to implement the Living Change agenda that will re-align incentives, re-establish positive norms (such as education being important) and provide supports so that people can take up opportunities.