

CSR Limited has been operating in Australia for 152 years. The company is a leading diversified manufacturing company with operations throughout Australia, New Zealand, China and South East Asia. For the year ending 31 March 2008, revenues were \$3.2b with capital expenditure of approximately \$350m. The company essentially operates within four divisions. These comprise Building Products, Sugar, aluminium smelting, through our shareholding in the Tomago aluminium smelter and development of land associated with former operations.

CSR Sugar is the 6th largest sugar company in the world. The sugar division is involved with farming activities, operates seven sugar mills in North Queensland and in a joint venture with Mackay Sugar Cooperative Association Limited, 3 sugar refineries, located in Melbourne, Mackay and Auckland. Each of the seven CSR sugar mills has a co-generation facility of some kind. Recently the sugar group extended its interest in power cogeneration using bagasse with an investment of \$160m in the Pioneer mill. The project was made possible through the MRET scheme. CSR is the sixth largest generator of RECS under MRET and the Pioneer facility is the third largest in capacity installed under the scheme. An additional capacity of 300MW could be installed depending on pricing and the forward curve estimates under the 20% renewables by 2020 policy of the Rudd Government. However, the company also needs certainty that government programs such as the tax driven MIS schemes won't undermine such investment.

At the Plane Creek site near Mackay, CSR Distilleries owns and operates an ethanol production facility which produces automotive grade anhydrous and hydrous ethanol which is further processed into products for printing inks, paints, pharmaceutical, food and beverage industries to name a few. The company has just announced an expansion of the fuel ethanol capacity at this site. The capital investment is \$17.8m and capacity will increase from 38mla to 60mla. The facility uses molasses drawn from CSR's own operations in the immediate area and the Burdekin region together with product from other mills in the Mackay Region. The co-product of the fermentation process is generally known as dunder. CSR blends this with nitrogen and phosphorous to produce a complete liquid fertiliser used in precision agriculture, mainly for the sugar industry. CSR Ethanol has won numerous awards for this innovative and cost saving product. Recently the company won the NAB Agribusiness Award for Value Adding and the DuPont Innovation Award for Agriculture and Food production.

CSR is developing new projects to produce additional ethanol from sugar by-products for automotive purposes, bringing lower prices to motorists and reducing the pressure on petroleum imports. While the sugar industry has struggled in the recent past, the industry has completed deregulation and is well positioned to grow in strength in the future. Costs for Australia's major competitor Brazil, have doubled in recent years, the subsidised exports from India appear to have ceased. Forward prices are rising and the Australian dollar is falling to the benefit of the industry.

CSR Sugar is extremely concerned about the encroachment of forestry plantations on prime agricultural land. In particular, Forestry Managed Investment Schemes have been able to offer farmers prices for land that are well in excess of any value that could provide a viable return to agricultural enterprise. Once this land is lost from farming it is effectively sealed over for the life of the forest plantation – 15 to 20 years in some cases. At the end of the forest rotation there is a significant amount of refurbishment required if the land was to be returned to agriculture. However, it will not be returned to sugar. We have detailed our concerns about this distortionary scheme in the attachment.

In relation to the retention of agricultural MIS, CSR is for the moment adopting a neutral position, pending further research and analysis. We note the recent proposal by SISL to aggregate sugar farms and welcome such initiatives. MIS may be an option to consider to achieve a similar outcome. Schemes such as this can play a substantial role in helping the industry rationalise by providing exit strategies for unviable or retiring farmers. Furthermore it will help to strengthen the international competitiveness of the industry

CSR submits that:

- If the government does proceed with non-forestry MIS, the scheme should be accessible by all agriculture – government should not favour one crop over another.
- Introducing a non forestry MIS for agriculture will require new marketing skills for industry participants. The crop form that most appeals to retail investors and is most successfully marketed by financial advisers and perhaps the most incentivised for advisers, is more likely to succeed over others. Thus the use of land may well be driven not by what grows best or best suits regional infrastructure, but is driven by returns to non farm stakeholders.
- With this in mind it will be critical that agricultural products or schemes have a degree of transparency that allows investors, both sophisticated and non sophisticated at the retail level, to be compared with other investment classes. Failure to achieve this will result in perverse and non optimum use of agricultural land determined potentially by marketing hype.
- The cost of MIS projects must be transparent and comparable across all MIS products, in particular the fees being paid to promoters and their related parties.
- Annual reporting of crop growth, health of crop/product needs to be publicly available in a timely manner.
- Annual reporting of returns to growers must be publicly available.
- Completely independent consultant reports on MIS product performance should be made publicly available to allow investors to make informed decisions on the performance of MIS management.
- Research houses that provide ratings for MIS products are truly independent. The independence of research houses should be accredited by an external body.

If agricultural schemes are to be extended by government then they must become accountable and transparent to all stakeholders. Thereby ensuring that Australia's prime agricultural land is used for the appropriate production of crops for the correct reasons and not due to investment market forces that are tipping a level playing field.

**To this extent we strongly recommend the same degree of transparency be applied to the inputs and outputs of all such MIS schemes and in particular forestry.** This will assist the robustness of choices and divert funds to enduring economic agriculture, rather than based on the skills of the promoters and marketing hype.

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