



GREAT SOUTHERN
GROUP OF COMPANIES



September 2008

Review of Non-Forestry Managed Investment Schemes
Business Tax Division
The Treasury
Langton Crescent
PARKES ACT 2600
Via email: misreview@treasury.gov.au

Submission from Great Southern Limited

Great Southern Limited wishes to make the following submission to the Review of Non-Forestry Managed Investment Schemes.

Great Southern welcomes this review and is confident that a full and robust examination of every aspect of non-forestry managed investment schemes will demonstrate the many benefits this industry is delivering to Australia. Furthermore, the company's belief is that such a process will assist in building community understanding of the industry.

Should any of the material in this submission require clarification, please don't hesitate to contact the company on 08 9320 9700.

Yours sincerely

Cameron Rhodes
Chief Executive Officer

**Submission to Review of Non-forestry
Managed Investment Schemes**



GREAT SOUTHERN
LIMITED



Submission from Great Southern Limited

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1 Executive summary

Great Southern Limited is a major participant in Australian forestry and agriculture. Since the early 1990s the company has offered Australians an opportunity to invest in hardwood plantations through a managed investment scheme (MIS) structure.

From 2004 to 2008 Great Southern progressively introduced and offered a range of non-forestry MIS investment opportunities focused on the production of wine grapes, olives, beef cattle and almonds. Each of these commodities was selected through a rigorous process which identified global consumption patterns, a favourable supply / demand outlook and the importance of scale to build export-focused industries.

However, since 30 June 2008 Great Southern has been unable to make any non-forestry projects available as a result of the Australian Taxation Office's new interpretation of the tax status of these investments. As a consequence, the company is continuing to manage all its existing non-forestry projects to ensure strong outcomes for investors, but is not generating new investment in these sectors.

The non-forestry MIS industry has brought a number of tangible benefits to rural and regional Australia over recent years, including employment, social, economic and environmental benefits.

Agricultural MIS projects in horticulture and other sectors have resulted in the creation of thousands of new direct and indirect jobs in regional areas.

The sector has been responsible for the development of several new, export-focused industries, a prime example being the Australian olive industry which is almost entirely driven by MIS.

It is vital to note that contrary to popular opinion, there is no special tax treatment for investors in agribusiness managed investment schemes. Investors are subject to similar tax regime as anyone engaged in primary production, and overall there is a significant net gain to the public coffers from the sector in terms of the amount of tax raised over the life of the projects.

Managed investment schemes provide a high degree of regulation and oversight for investors, ensuring that their interests are adequately protected. Moreover, most of the major companies in the sector, including Great Southern Limited, are ASX listed entities with a further level of scrutiny and regulation.

Great Southern welcomes the Federal Government's interest in the industry through this review process. The company believes the best outcome for regional Australia is the introduction of policies that facilitate and encourage long-term, sustainable investment in all forms of agriculture, with the key objective being an expansion rather than a scaling back of the development of new industries.

2 Investing in Australian agriculture through an MIS structure

A managed investment scheme (MIS) is a business structure which allows individuals to participate in a business. It draws together a pool of individuals and injects into agriculture funds that may not otherwise have existed.

Non-forestry MIS structures are the biggest source of investment in Australian agriculture in the past decade. MIS compete to attract funds in an open and highly transparent market against other investment vehicles.

2.1 Size of investment and operations

The size of the MIS participant's business is flexible, being divided into "units" or "lots". Each investor ("Grower") is allocated a number of lots in proportion to the amount of money contributed to the business. There is generally no limits as to the maximum number of lots an individual can contribute to.

Lot sizes Great Southern offered for its non-forestry products in 2008 ranged from 0.1 hectare for a grovelot in the Diversified Olives Project and a vinelot in the Wine Grape Income Project and 0.25 hectare for an almondlot in the Almond Income Project. Since 2004 and across all Great Southern horticulture projects, only up to 6% of total projects lots were the result of single lot sales.

MIS regulation and the size and cost of the infrastructure required in setting up horticultural MIS mean that the MIS projects work most effectively on a large scale. That is, large tracts of land, a large number of trees (for example) and a large amount of working capital. For this reason, the MIS horticultural projects are best compared to large farming ventures and not to small/medium farms, small cottage industries or an individual farmer.

Great Southern non-forestry projects raisings have ranged from \$5.7 million for the first Great Southern 2007 Almond Income Project to \$78 million for the Great Southern 2007 Beef Cattle project.

2.2 The Responsible Entity

Under the Corporations Act and general law, the Responsible Entity has substantial responsibilities to the investors including a responsibility to conduct ongoing management services in a proper and efficient manner in accordance with good industry practices.

The MIS structure is regulated by both the Australian Securities and Investments Commission (ASIC) and the Corporations Act. It is a requirement of the Corporations Act that the individuals who participate in a MIS do not have day-to-day control over the operation of the scheme which, in view of the typically larger size of the agricultural operations, makes commercial sense. Instead, the individuals together engage at market rates an entity called the "Responsible Entity" to manage the operations of the business.

The Responsible Entity typically has the power to engage third parties to perform services on its behalf, however always retains primary responsibility to individual investors. Furthermore, the Responsible Entity appoints an independent expert to report regularly to investors on their project. The Independent Expert provides an opinion as to how the project is progressing on a yearly basis; scheme accounts are also forwarded to investors at that time.

MIS is not the only tax effective structure where investors have no day to day control over operation of the agricultural venture. Traditional limited partnerships – such as the one created for the purpose of

investing in an agricultural venture such as a vineyard – would often contract on-ground management services to a viticulture company who, in turn, may engage sub contractors to perform specific tasks such as pruning, harvesting etc. There are a number of vineyards owned by groups of acquaintances that are managed that way.

2.3 No tax advantage

While the MIS structure provides some tax benefits to participants by virtue of the deductibility of initial management fees, it is incorrect to say a tax advantage exists.

There is often a perception that tax deductions available to MIS participants are a special “tax concession”, however this is not the case. Participants in non-forestry MIS’s are entitled to tax deductions on the same basis as traditional farmers.

These are deductions for the expenses involved in carrying on a business of agriculture, arising from a straight application of ordinary and long established tax principles established by the courts.

In particular Australian courts have consistently found that MIS participants are carrying on a business and the tax treatment of payments made by participants under the MIS has followed their conclusion. The conclusion that MIS participants are carrying on a business is currently being considered by the Full Federal Court. Accordingly, Great Southern does not propose to discuss the tax technical analysis in detail in this submission, however some general comments and observations on tax matters associated with non-forestry MIS in response to some of the points raised in Treasury’s issues paper are provided below.

The issues paper puts forward the proposition that the level of economic risk assumed by a participant in a MIS is more akin to a passive investment, for example a unit in a unit trust or a share in a company. This is not correct. In the case of Great Southern’s non-forestry MIS projects, participants are exposed to the economic risks of carrying on their business as a result of an obligation to make further payments should the sales proceeds received in respect of their business not be sufficient to cover a minimum level of operating costs. Returns are also clearly subject to the market risk of the particular business which the MIS participant has chosen to enter.

Participants in Great Southern’s non-forestry MIS’s are exposed to the ongoing risks of conducting their business in the similar way a partner in a partnership or a sole trader is, both in terms of future costs and future income.

As stated in the issues paper “people acquiring a business can choose between several business structures”. Depending on the particular structure chosen different tax consequences will arise and this may be a factor in the choice of structure.

For example, it is common for mining exploration to be undertaken via an unincorporated joint venture arrangement with the resulting tax treatment being that the joint venture partners are entitled to an immediate tax deduction for their exploration expenditure. However, it does not automatically follow that the joint venture partners are obtaining an unfair tax advantage; rather they are simply availing themselves of a structure which results in certain tax outcomes.

The analysis in the issues paper assumes that taxpayers using structures other than MIS’s to conduct agricultural activities would have to hold all capital assets themselves. Most legal structures such as companies, unit trusts, partnerships, joint venture projects and sole traders can choose the extent to which they substitute rented or leased assets for owned assets. In this way they substitute tax deductible rent and lease payments for non-tax deductible capital outlays. For example, many small

companies rent their business premises and lease the plant and equipment they need to run their businesses, so that these cash expenditures are immediately tax deductible. However, the owners of the rented and leased assets then pay tax on the rent and lease payments received and may be able to claim tax depreciation on some of these assets.

Alternatively, a group of traditional farmers is able to pool their resources and form a partnership, to for example, lease a property and grow crops which take some years to mature and therefore provide early year upfront tax deductions that the farmers can use to reduce their taxable incomes from other sources.

It is therefore possible for participants in other legal business structures, particularly partnerships and joint ventures, to obtain the same tax outcome as MIS participants if they similarly lease land that is ready and prepared to commence an agricultural business.

Taxpayers commonly make choices that may deliver certain desired tax outcomes, including who owns assets, how assets are owned and the level of debt used to acquire assets. A managed investment scheme is merely another choice of legal structure from which the tax treatment flows in accordance with the taxation law, as it does for any other choice of legal structure made by taxpayers.

Comparisons to investing in a company or trust have been made in the issues paper. The comparisons presented are generally one dimensional focussing only on the tax treatment of the initial contributions made by MIS participants. It is important to remember that 100% of management fees deductible by participants are taxable to the MIS operator in the same year. Proceeds received by individual MIS participants are also taxed as revenue income at marginal tax rates. This can be contrasted to the tax treatment of gains made by individuals on the sale of shares or units which may be eligible for concessional tax treatment under the capital gains tax discount concessions.

Therefore, arguably there are no overall tax advantages arising from a MIS structure because the MIS operator pays tax upfront and the MIS participant is taxed on their income at a higher rate than they might be under an alternative structure.

Investors will not spend \$1 to save a maximum of 46.5c. The up-front tax deduction may be one aspect of the decision to invest, but the merit of the investment and subsequent income stream is also a significant consideration. This is clearly demonstrated by the ongoing interest from investors and the financial planning community in regard to returns from the projects, also clearly documented by research houses such as AAG in their annual track record review.

Investors who are only interested in obtaining a tax deduction or reducing their tax can do this in other ways, such as negatively gearing investment property or shares (albeit this would involve a larger capital outlay) or contributing to their superannuation fund through salary sacrifice arrangements.

AAG's annual End of Year Survey for 2005/06 reports on funds raised in the MIS industry and presents data on the estimated tax refunds to investors and the amount of future tax that will be paid on the estimated revenues.

Of the \$1,141 million funds raised in 2005/06, 92% was deductible in the same year and assuming a 48.5% tax rate, this means that \$510 million or 45% of the funds raised will return to investors as a taxation refund. In reality, not all investors will be on the highest marginal tax rate of 48.5% so the figure refunded to investors will most likely be less than \$510 million.

By comparison, AAG estimates that in current dollar terms (excluding any price or cost inflation) 2005/06 projects will produce \$5.5 billion in farm gate revenue over the lives of the projects. This is a 4.8 times multiple. Allowing for annual management, lease and crop marketing fees, AAG estimate that

net income to investors would total approximately \$3.3 billion. Investors will pay tax on this net income. Following the recent changes in the top marginal tax rate to 46.5%, the amount of tax likely to be paid to the Government on the net project income is approximately \$1.5 billion, which is three times the tax deducted in 2005/06.

In addition to this, the product managers will have to pay tax at 30% on the management, lease and crop marketing fees. Also, there will be tax paid on salaries and wages which will grow significantly as these projects develop. Pay-roll tax and very significant amounts of GST will also be paid to the Government and when combined with the tax and net crop income the MIS industry contributes tax at substantially greater than three times the tax deducted upfront.

More recent data for the 2007/08 financial year shows that the agricultural MIS industry raised \$1,079 million, which by AAG estimates will contribute approximately \$6.5 billion in farm gate revenue over the term of the Projects. This \$6.5 billion is considerably greater than the estimated \$482 million in deductions received by investors for investing in agri MIS projects in 2007/08. Therefore it is clear that although a tax deduction is initially received by investors, the long term net benefit of taxable income inflows to Treasury far outweighs the short term outflows of taxable deductions.

These figures categorically demonstrate the overall financial benefits to the Australian community delivered by MIS operators, irrespective of the perceived tax advantage associated with MIS's.

Great Southern believes that non-forestry MIS's are a successful model due to the advantages of pooling resources to achieve beneficial outcomes for the MIS investor and not due to any special legislative tax advantage.

2.4 Portfolio diversification for investors

Traditionally it has been difficult for an investor to tap into the benefits of owning agricultural assets short of buying and operating a farm, which is typically capital-intensive, has lag times to production maturity and requires agricultural management experience. Quality non forestry MIS allows investors the opportunity to gain access to an agricultural operation managed on their behalf, with sales contracts in place and produce pooled across the project to minimise risk. These MIS offerings provide an investor with the aforementioned portfolio diversification benefits which continue to deliver returns to investors at a time when traditional asset classes and superannuation balances are retreating in the face of the global credit crises and economic uncertainty.

2.5 A sustainable and efficient business structure

It is in the MIS operator's best interest to operate a sustainable and efficient business.

Like other business structures, MIS investors are required to pay ordinary costs of business including management fees, rent and insurance costs.

Great Southern's non-forestry projects operate predominantly along a shared revenue model where the Responsible Entity is only paid a percentage share of sales proceeds for its management and rent fees. This formula closely aligns the Responsible Entity's and the investors' interests. For example in Page 5 of the PDS for the Great Southern 2008 Almond Income Project ARSN 127 947 960 (Annexure 1), the Responsible Entity states that the investor will pay the following fees:

Application Fee: each Grower must pay an Application Fee of \$5,750 (plus GST) per Grovelot on or before 15 June 2007 for the 2007 Project and on or before 15 June 2008 for the 2008 Project. This

Application Fee relates to the period which runs from the commencement of each Project to 30 June 2010 for the 2008 Project and represents Initial and Ongoing Management Services provided by the Responsible Entity during that period.

Ongoing Management Fees: the proceeds from any sales of Olive Produce during the Initial Period and the first four financial years of the Projects (ie: up to 30 June 2012 for the 2008 Project) are retained by the Responsible Entity. These proceeds (if any) will be applied as remuneration for the provision of Ongoing Management Services and Olive Grove Rental. Annual management fees in respect of Ongoing Management Services from 1 July 2012 for the 2008 Project onwards are set at 30% (exclusive of GST) of the annual Net Proceeds of Sale each year until the end of the respective Project. Annual Net Proceeds of Sale are derived by deducting annual Harvest costs from annual proceeds from the sale of Olive Produce.

Olive Grove Rental: each Grower must pay an annual Olive Grove Rental fee of 10% (including GST up to 30 June 2012 for the 2008 Project and plus GST thereafter) of the annual Net Proceeds of Sale per Grovelot for the relevant year from 1 July 2008 for the 2008 Project to the end of the 2008 Project. No rental fee is applicable for the period 16 June 2008 to 30 June 2008 for the 2008 Project.

Although the fees and costs structure may also indicate that an investor in MIS has some degree of certainty as to the monetary contributions it must pay, the shortfall clause in place in Great Southern horticulture projects confirms that MIS participants are not always protected from contributing further to the project's scheme.

The above example demonstrates that MIS investors, like investors in other business structures, are still required to pay ordinary costs to run their business (including the cost of labour, rent, services and water or obtaining water licences) through revenue sharing the projects' harvest proceeds. It also demonstrates that, as in other business structures, the business is not expected to turn a profit in the first year. Initial fees typically cover for management fees in years where there is an absence of income.

This explains what is perceived to be a disparity between initial and on-going fees charged by the MIS operator and confirms that initial fees are not used to fund expenses that are regarded as non-deductible capital items.

While a percentage of funds raised are used to pay commissions to financial advisers, these commissions are partly or fully rebatable to investors at the discretion of their financial adviser. Great Southern has a commission option structure which compares to typical fund managers in the funds management industry. For example, in the Great Southern 2008 Diversified Olives Project, the commission structure allows for 5% upfront (+GST) and a trail commission of 0.65% for 10 years. These rates are aligned to industry benchmark as the table below confirms.

	Up Front	Trail
Colonial*	4.29%	0.60%
AMP*	4.10%	1.10%
Perpetual*	4.29%	0.55%

* Note: commissions are not attached to any specific fund and a guidance provided in the PDS covering the full investment suite of managed funds

2.6 Risk sharing

Investors in a Great Southern horticulture project are somewhat liable to meet yearly shortfall costs in difficult years which confirms that a MIS structure investment should not be compared to a 'hedging type' security.

Investing in MIS is considered speculative because the business of the MIS is still subject to climatic, agricultural or commercial risks associated with horticultural business. This is stated clearly to investors. For example see the Great Southern 2008 Diversified Olives Income Project PDS (Annexure 2) page 37 which contains the following disclosure:

"The risks associated with olive fruit production (including organic olive fruit production) and olive oil extraction are similar to those in any large scale farming or agricultural venture".

Accordingly, investors are required to take out insurance at their own cost to insure against insurable risks including hail, frost, fire wind and other risks included in the relevant insurance policy. The insurance is payable for the life of the project. The investors are exposed to insurance price variations. Prices for insurance will increase to reflect the market value of the produce and the premium rates may vary from year to year depending on insurance market conditions and claims experience (see Great Southern 2008 Diversified Olives PDS page 37).

It has also been said that the MIS structure "spreads risk" among investors. This is not strictly correct because (as discussed above) the investors are treated fairly and in proportion to their investment. So risk is also distributed according to their investment. The larger investment, the more risk is associated with the investment.

Insurance does not make an investment entirely secure. If the investor's interest is substantially or fully destroyed due to an uninsured risk, then the investor's interest is terminated and the investor is out of the project. (See for example Great Southern 2008 Diversified Olives Income Project PDS page 37 and 74).

There are also market and commercial risks that the investors are exposed to. The Great Southern 2008 Diversified Olives Income Project PDS states that the "farm gate price" for the produce will ultimately affect harvest proceeds returned to investors (see page 22).

Furthermore, there is no certainty as to the limited liability of the investor and the Responsible Entity gives the following warning to all potential participants:

"The Responsible Entity believes that the Grower's liability to the Responsible Entity is limited in accordance with the terms of the Constitution of the Projects. However, it is not possible for the Responsible Entity to give an absolute assurance that liability is limited and the ultimate interpretation of the law with respect to the Grower's liability rests with the courts" (See the Great Southern 2008 Diversified Olives income Project PDS page 25).

These examples demonstrate that like any farming enterprise, investors in MIS are exposed to the risk of carrying on a business, reduced returns or the possibility of losing their investment.

2.7 Forecast and actual returns

We note that the Treasury requests details of returns generated by non-forestry MIS operations and how these returns have been allocated between entities involved in the MIS operations.

Great Southern's non-forestry projects that are due for a return distribution in financial year 2007/08 are the 2004, 2006 and 2007 Great Southern Wine Grapes Income projects. The 2004 and 2007 projects will be issuing returns for the first time and the 2006 project for the second year. Since distributions are not due to investors before 30 September, Great Southern does not consider public disclosure of upcoming distribution appropriate at this time but however is open to discuss performance directly with Treasury.

Overall, the above projects have been subject to the same degree of climatic, agricultural and commercial risks associated with carrying on a viticulture business and have performed reasonably well in the current environment.

It is however important to note that, in order to objectively assess performance, management quality and advantages of belonging to an MIS viticulture business would require a direct comparison with performance achieved by neighbouring privately owned vineyards of similar age, size and varietal composition.

2.8 Return forecast

In order to offer a MIS project to investors, the Responsible Entity must publish a product disclosure statement (PDS). There are strict Corporations Act, Trade Practices Act and general law disclosure requirements for a PDS which the Responsible Entity must comply with.

In particular it must ensure that all of its statements are factually accurate and do not contain forecasts or any indications about how much the investors may make from investing.

The Responsible Entity is also required by law to give investors a number of consumer warnings about risks associated with an agricultural investment i.e. climatic, agricultural, commercial etc and investing in the MIS.

Great Southern engages an Independent Expert to provide potential investors with an independent opinion as to what they consider to be reasonable agricultural performance parameters for the project.

The Independent Expert assesses and comments wherever applicable, past performance, management expertise and site due diligence in a report that is included in the PDS.

The soundness of a MIS project structure is further ensured by independent research houses, also referred to as gate watchers for the financial investment community. Assessment of the project viability by these credit rating agencies is extremely thorough and all assumptions used in the MIS operator's financial model under scrutiny, including past performance, management skills and an assessment of the MIS company's corporate governance. A range of sensitivities is provided whereas the potential investor is being made aware of the assumptions the project is most sensitive to (i.e. commodity price or yield or both). Please refer to the 2008 Lonsec research report for Great Southern 2008 Almond Income Project (Annexure 3). Project weaknesses and benefits are highlighted as applicable throughout the report culminating to what the research house considers to be a reasonable rate of return for the project and a project rating is finally issued.

It is a difficult exercise for any business structure to provide a 20 year forecast as to potential return outcomes for an agricultural business venture of any kind. Great Southern believes that potential investors have all the information they require to make an informed investment decision.

Great Southern aligns its interests to investors by using a shared revenue model for its non-forestry MIS projects. As an example and in relation to Great Southern Winegrape projects (Refer to Great

Southern 2008 Wine Grape Project PDS – Annexure 4), Great Southern advises in the projects' PDS that, should returns not reach an internal rate of returns of 9% per annum, the terms of the project will automatically be extended for two further years on the same terms and conditions as are contained in the Lease and Management Agreement.

It is clear that a number of other business structures are not subjected to these rigorous disclosures. These regulatory burdens however promote best practice, emphasize risk management and promote accountability, efficiency and sustainability in MIS business structures.

2.9 MIS structures promote best practice

The need to comply with the regulatory regime means the Responsible Entity must be confident that the project being offered is sound. Accordingly, a large amount of funds is directed towards due diligence prior to the commencement date of the project and, subsequently, towards providing management services efficiently.

As with any other business, the Responsible Entity must ensure that the business it is offering to the investors is sustainable and extensive research is undertaken into the commercial viability of the MIS project. From very early in the development stages the MIS operator follows best practice principles by engaging independent experts in their field and accessing the best advice available; this includes the Responsible Entity engaging a variety of expert agencies to conduct extensive tests, such as these conducted to identify suitable land and water for the project, comment on crop variety and purchase of seed stock, develop techniques for pruning and fertilising the crops, develop state of the art technology for harvesting the produce etc.

Best practice comes at a cost especially in earlier years which explains why initial management costs are generally higher than on-going management costs.

As a result, the MIS operator is usually prepared to provide a "stocking guarantee" to investors or, as discussed above, an extension of project length if internal rate of return does not reach a specific target. In the Great Southern 2008 Almond Income Project, the stocking guarantee is in the following terms:

"The Responsible Entity guarantees that 12 months after the Commencement Date of the Project, there will be an average of 280 Almond Trees per hectare on the Almond Grove". (See Great Southern 2008 Almond Income Project PDS page 6).

Non-forestry projects are typically long term projects that need regular annual fund inflow for the MIS operator to operate a sustainable business. Accordingly, it is important for both investors and the Responsible Entity that MIS projects are managed according to best practice principles.

Significant research is also conducted in the commercial aspect of the projects. Markets, price movements etc are carefully considered and expert advice taken when not readily available to assess longer term trends. Such information is disclosed to potential investors in the PDS.

For example the PDS for the Great Southern 2008 Almond Income Project ARSN 127 947 960 contains a section that sets out the most updated information regarding the almond industry including world almond production, world almond trade and the Australian almond industry (see Great Southern 2008 Almond Income Project PDS pages 8-13 in Annexure 1).

Trends in agriculture driving movements towards large scale farming models, which is the basis for Great Southern involvement in non-forestry MIS, is discussed in detail in the next section.

3 Economic benefits of non-forestry MIS structures

Non forestry MIS has been a strong source of investment for the horticulture industry. In the 2007/08 financial year the industry raised an estimated \$375 million. The area of land to be established to horticulture and vineyards stands at 7,025 hectares and 1,122 hectares respectively. AAG, in its Agribusiness MIS Industry Report of Capital Raised, July 2008, (Annexure 5) estimated that in current dollar terms (excluding any price or cost inflation), the 27 horticulture and viticulture projects which were released in 2007/08 will produce over \$3 billion future farm gate revenue over their term, approximately eight times the multiple of funds raised.

3.1 Global forces driving economic outcomes

The commodities that are grown under most non-forestry MIS structures, including those offered by Great Southern Limited, are international commodities; assessment of these industries must therefore be considered in an international context. Multiple opportunities exist for further development of these industries, both as an import replacement and a value added export industry.

The agricultural market has been in a period of resurgence since soft commodities prices bottomed in 2001. There are several contributing factors bringing agriculture back in favour with commodity, financial and property markets on a global scale.

The continual expansion in world population and the rising wealth of developing economies, and in particular China, have meant that not only are there an increasing number of people having to be fed each year but the demand for specific types of food, specifically protein and higher value foods (such as olive oil, wine and almond, all of which are produced by Great Southern's non-forestry MIS projects) are increasing and also needs to be met.

The demand for these higher value foods is being driven by increases in per capita GDP, and therefore purchasing power, in developing economies stretching from South America through to the Middle East and into China. The Almond Board of California (a co-operative body of almond growers producing some 80% of almonds globally) reports that exports to Asia grew 20% in the year to August, driven by strong demand in markets such as India, China and Korea where new shipment highs were recorded. Almond exports to India, Japan and Hong Kong represented 53% of total Australian exports in 2007.

Additionally, the increasing use of energy rich foods as alternative energy sources to oil in producing biofuels is challenging the end use of a diminishing arable global land bank (per capita).

These increased demand pressures for both food and arable land are placing upward pressure on commodity and inputs such as land and water, in turn presenting opportunities for farming operations of sustainable size to leverage on economies of scale and efficiently farm the land. As reported by the Almond Board of Australia, Almonds have become an attractive crop for Australian investors because the industry has proven to be profitable and stable over the longer term; reasons for this, as stated in their 2007 Australian Almond Statistics Report, include the ability to develop and manage orchards on a larger scale together with the development of new growing technologies that have enhanced profitability and maintained international competitiveness. Current planted acreage in 2007 represented investment of \$1.2 billion in plantings and a further \$64 million in processing infrastructure, totalling \$2 billion dollars of investment in the industry.

Australia will remain a price taker in most horticulture industries until some form of significant scale is reached. Given a number of these industries (particularly almonds and olive oil) have been historically

dependent on MIS investment for growth, any lack of future developments can only be seen as a backward step for these industries.

The combination of food, feed and fuel demand has created an upward shift in the trend of demand growth for agriculture products. The Goldman Sachs JB Were report "Food, Feed and Fuel" (Annexure 6) makes the point that this recent rise in agriculture prices is not a transient spike but rather represents the beginning of a structural increase in prices, much as had occurred in the energy and metal markets.

The global agriculture boom has already been opening up new market opportunities for Australia, particularly in the Asia-Pacific region where, as discussed, demand for commodities is steadily increasing due to rising populations, GDP growth and their close proximity to the Australian market. Through the company's involvement in the woodchip market, supplying Japanese pulp and paper producers, Great Southern has seen the real impact of increased literacy in the Asia-Pacific markets on our hardwood pulpwood operations upon which Asia-Pacific countries have increasingly become reliant. All the company's wood resource is, or by the end of 2008 will be, fully committed to Japanese buyers, with this demand only expected to intensify.

These same drivers indicate that demand for food and value added food products out of the Asia-Pacific region will be significant. Traditional farming and/or limited partnerships will struggle to provide the necessary scale, efficiencies, capital and marketing experience to grow or consolidate Australia's presence in global markets.

As discussed above, it is very clear that tax effective MIS structures are bringing economic benefits to Australian agriculture.

3.2 MIS and the Horticulture Industry

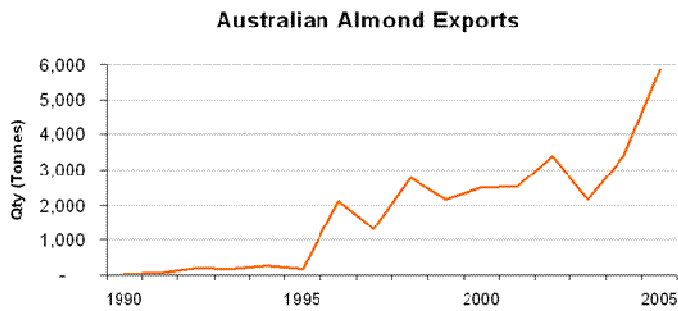
The MIS sector has been the main driver of growth and investment in both the Australian olive and almond industries in recent years.

Great Southern horticulture MIS projects evolve around wine grape, almond and olive (organic & conventional) production; industries that are either increasing or consolidating their production to penetrate further global markets or strengthen their current positioning. With climatic conditions experienced in Australia in the past years, consistent supply of large volume of quality produce provides processors and distributors with the security and quality of supply needed to remain competitive and grow their brand internationally in the current commercial environment.

Great Southern is the second largest land holder (per hectare) for olive grove land and in the top three largest producer of olives in Australia. Although data cannot be sourced from reliable sources to confirm the following, it is also believed that Great Southern is the largest land holder for organic olive grove land in Australia and amongst the largest in the world.

According to the Australian Olive Association, the MIS investment model in its current form has led to the planting of about 70% of the olive trees in Australia and this major contribution to the olive industry by MIS had given much needed impetus as the industry continues to strive to reach critical mass on the global stage. The Association has expressed concerns that legislation changes could seriously impact on the ability of the olive industry to continue competing on a global basis and take advantage of the immediate opportunities that are open to it.

The graph below confirm how successful the almond industry has been in growing their export markets in the last 10 years as additional volumes provided by MIS operations have been coming through:



Source: FAO Stat <http://faostat.fao.org>, accessed September 2008

The data in the above graph was sourced from FAO only records exports until the end 2005 however the Almond Board of Australia have sourced data from the ABS that shows exports for 2006/07 and 2007/08 financial years of approximately 7,567 tonnes and 14,917 tonnes respectively. This is consistent with the above trend.

An independent almond industry report conducted by Lonsec (Annexure 3) indicates the future for the Australian almond industry continues to be positive, with increasing demand and positive price trends, suggesting strong growth potential. Lonsec believes that Australian grown almonds hold a small yet significant position in the global market. Lonsec however comments that, in the next few years this position is likely to come under increased pressure from issues such as water availability and exposure to currency exchange rates which may have an impact on how the almond industry will expand in the future.

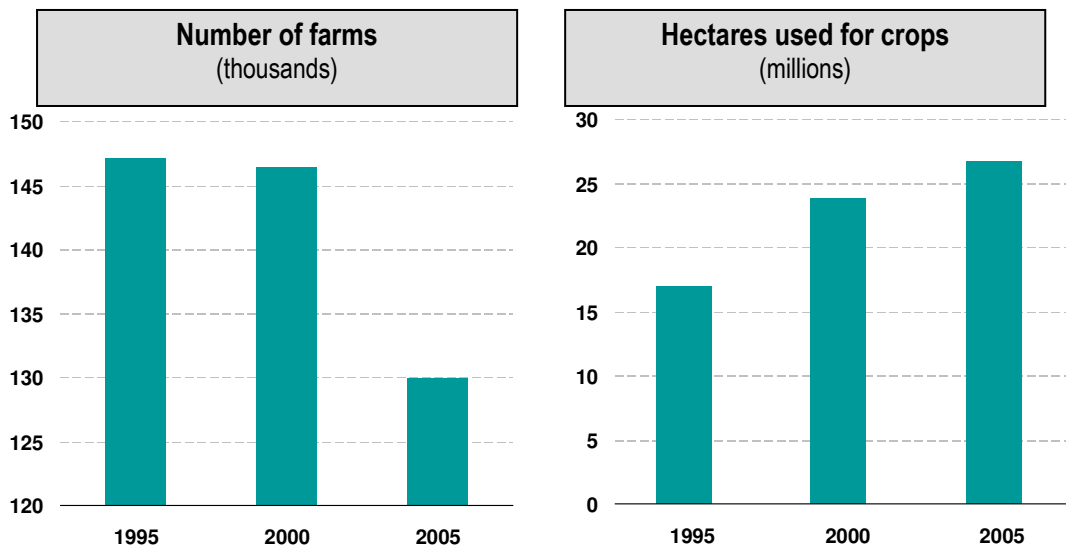
Water is a key driver of horticulture operations; the lack of which constrains supplies going forward. This is the direct result of risks associated with agriculture, not necessarily MIS operations.

GSL has implemented sustainable water management practices for GSL almond projects, with high security water licences in place sourced from the Lower Lachlan groundwater aquifer and not affected by the Murray Darling river licence restrictions.

Incidentally, GSL olives projects' water supply is also sourced from underground water. Great Southern water management practices are addressed in more detail later in this submission.

3.3 Scale driving efficiencies

Consolidation within the Australian agriculture sector has occurred in Australia and across industries for the past 10 years. As illustrated in the table below, in 1995 there were approximately 147,000 individual farms; by 2005 this figure had reduced to just below 130,000. Despite this reduction in the number of farms, the amount of hectares under production had steadily increased to approximately 26 million hectares in 2005 from approximately 17 million hectares in 1995.



Trends in global agriculture are driving moves towards large scale farming models that are the basis for managed investment scheme projects.

As stated by the ABS (page 45 Annexure 7): “Due to efficiencies associated with economies of scale, for most commodities increasing farm size is linked to higher rates of return, making larger farms more economically viable than small farms”.

ABARE also states (p239 Annexure 8): “A major factor contributing to strong productivity growth is the increase in the scale of individual farming operations. Farms have become larger since the 1980s with average cropping area increasing by 58 per cent from 450 hectares to 710 hectares between 1985-86 and 2005-06 (ABARE and MAF 2006). This has enabled farmers to capture economies of scale that allow them to produce more output using relatively fewer inputs”.

In their 2006 AIMA Research Report – Financial performance of the Wider Agribusiness Sector (Annexure 9), AAG commented that only the top 25% of the larger enterprises are returning reasonable outcomes to their owners before capital appreciation is factored in. Reflecting on significant variation between the top 25% of each group examined, AAG came to the conclusion that management ability was also a key factor in achieving sustainable returns and suggested some farmer representative organisations might be better advised to concentrate on the evident problem in mainstream agriculture rather than focussing on the MIS sector.

3.4 Great Southern and the wine industry

The wine industry has had substantial success in penetrating the global market; if growing pains have emerged, these issues have principally evolved around an imbalance between cool and warm climate production, business sustainability and price point positioning which we do not propose to discuss in this submission. These topics have extensively been covered by national bodies such as the AWBC Supply and Demand Paper 2007 (Annexure 10), Wine Australia Directions to 2025 (Annexure 11) and the more recent Deloitte Annual financial benchmarking survey for the Australian wine industry vintage 2007 (Annexure 12).

The viticulture industry operates in the context of a large global wine market driven by international forces, both for the sale of its products and overall cost of inputs; MIS structures and Great Southern have little impact on these.

Great Southern is believed to be the fourth largest producer of grapes in Australia with a vineyard estate of 19 properties, located in 12 GI regions and across 4 states with a total of 2,329 hectares, representing 1.5% of the total area under vines in Australia. Sales contracts are in place with 13 large to medium size wineries; these range from the biggest wine company in India (Champagne Indage) to the biggest players on the Australian wine scene (Fosters Group & BRL Hardy Limited), household names Australia wide (Orlando, McWilliams) and well established mid sized producers that have been very successful at growing their brand in recent years (Grant Burge, West Cape Howe & Ferngrove).

Since 2005, GSL has been involved in purchasing established vineyards from:

- (i) wineries themselves hence providing them with immediate working cash flow to inject into their branding and marketing whilst ensuring that their wine grape requirements of consistent quantity and quality continues to be met every year or
- (ii) run down and financially stressed established vineyards in premium Geographical Indications across Australia

...and repackaging them into an MIS tax effective product consisting of a mixture of mature, young and new vines, all of which under contract at the onset of the project.

More recently, the 2008 WineGrape Income Project did not include any new plantings and offered a mixture of 50% mature vines and 50% young vines; the latter being vines less than 3 years old, radically pruned or grafted. Similarly to all GS projects, all vines from the 2008 project are contracted at commencement date. Please refer to the 2008 Wine Grape Income Project Product Ruling 2008/45 (Annexure 13)

Great Southern's approach with its Wine Grape Income Projects confirms that MIS projects are able to inject funds in consolidating industries without necessitating unnecessary changes in land use. The company's view is that the MIS structure has an important role to play to help the industry's return to sustainability and can find niche opportunities as determined by market demand.

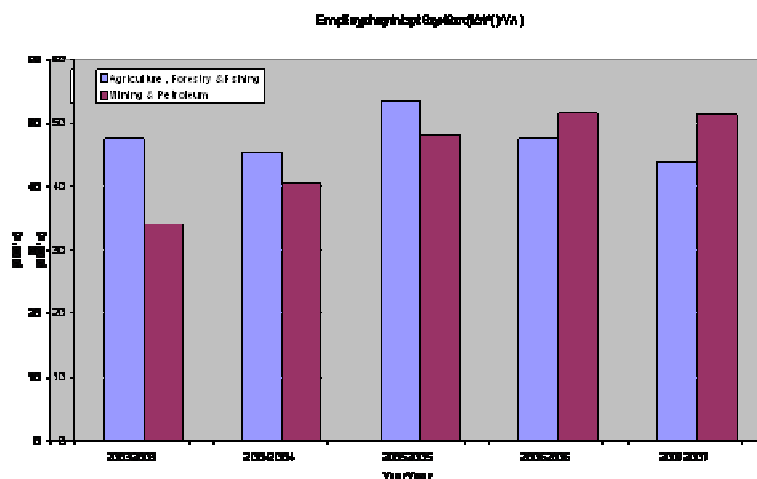
3.5 Generating employment

Historically, Australian agriculture has always had important linkages with other sectors of the economy and, therefore has directly contributed to the growth of these flow-on industries.

According to the National Farmers Federation ("NFF") Australian agriculture supports the jobs of 1.6 million Australians, in farming and related industries, across our cities and regions – accounting for 17.2% of the national workforce, and as of February 2008, 294,440 people were directly employed in the Australian farm sector.

NFF also comments that employment in the agriculture sector has experienced difficulties in recent times, with a drop in employment of 90,000 people on pre-drought levels and accounting for around 3% of the national workforce.

As a result of the continuing boom in the resources industries, people have been steadily moving away from agricultural Australia to pursue opportunities and lucrative salaries in the mining sector. The table below is a snap shot of the effect of the resources boom in Western Australia which has seen the resource sector overtake agriculture, fishing and forestry as a source of employment.



The scale of employment growth in the resources sector has been such that the Department of Industry and Resources (WA) estimate that 55% of all jobs created in the state in the 1990's have resulted from the expansion of the resources sector.

Non-forestry MIS however has been able to unlock job opportunities and provide people in the regions in which Great Southern operates with the security of long term employment and attractive career paths to pursue in regional Australia. Non-forestry MIS revitalises agricultural areas by generating such employment opportunities and contract servicing opportunities for both the immediate business operations and the wider regional business communities. These points will be addressed in more detail later in this document.

3.6 Driving innovation through research & development

MIS operations have a long-term commitment to the industries in which they are involved and as part of this, consider research and development a critical function.

The collection of an industry levy is broadly uniform across horticulture industries. It is also broadly uniform across MIS and non-MIS producers. In most of the main horticulture industries where MIS is involved, the levy is calculated on an output basis, with a specified amount paid from returns per unit of production. Accordingly, the more developed the industry is, the higher the output and the more levy generated.

Horticultural industries with a national levy system in place have an Industry Advisory Committee to guide the use of industry funds across investment in the industry; funds are traditionally used in areas such as research & development and marketing.

To further contribute to innovation through research and development, Great Southern also conducts independent research and development trials internally and on its properties in an attempt to continually improve production and maximize efficiencies within our agricultural operations. Great Southern currently has in excess of 10 non-forestry MIS related R & D projects under way, one of which is to further research and document the nutrient requirements of irrigated olives groves with the aim of determining:

- a) optimum nutrient requirement for all of the major soil types and varieties grown on Great Southern olive groves;
- b) optimum annual nutrient requirements based on the age of the tree and targeted yields for conventional and organic olives; and

- c) testing of the most effective application period and method

In time it is expected that Great Southern will develop a leading nutrition program which will ultimately be of benefit to the broader Australian olive growers' community. More examples of Great Southern involvement horticulture research and development are provided in Section 5 of this submission The Environmental Benefit of MIS.

It is evident that MIS structures contribute significantly to innovation in research and development not only by contributing fairly to the existing levy system but principally by conducting a large number of trials and research projects internally.

As the MIS non-forestry industry matures, it could be expected that the company's involvement with research and development will increase further. As an example, Great Southern is proud of the contribution and commitment the company has made to forestry since 1994; our R&D forestry budget was in excess of \$3.5million last financial year with a dedicated team in place and working with both industry and governmental bodies in the interests of the forestry industry in Australia.

4 Social and environmental benefits of non-forestry MIS

4.1 Social benefits of non-forestry MIS

The development of Great Southern's non-forestry MIS projects has produced a quantifiable impact on regional employment, rural infrastructure and regional economic developments and has strengthened local communities through the company's support of community events, schools, community groups and sports clubs.

Great Southern non-forestry MIS offerings consist predominantly of permanent plantings. As opposed to annual crops (grain, vegetables etc) where planting can differ greatly year to year depending on climatic conditions and prevailing prices, permanent crops require long term commitment to the land. This is demonstrated by the necessary initial lag time between planting and commercial harvest (approximately 4 years in the case of an almond or olive tree for example) followed by the year round attention and maintenance leading to the annual harvest.

This long term commitment to the land helps provide employment certainty to rural Australia and allows for government, the local community and the farm to plan for the long term infrastructure needs of the region based on expected regular future harvests. Non-forestry MIS has attracted both private and government investment into regional areas in order to meet the future harvest requirements of MIS agricultural developments, which is ultimately to the benefit of the community as a whole.

Great Southern has been active in developing and actively supporting rural and regional communities such as Hillston in NSW (almond orchard developments), Frankland River in WA South West (vineyard developments), Avon Valley region of WA (olive grove developments) in a range of ways.

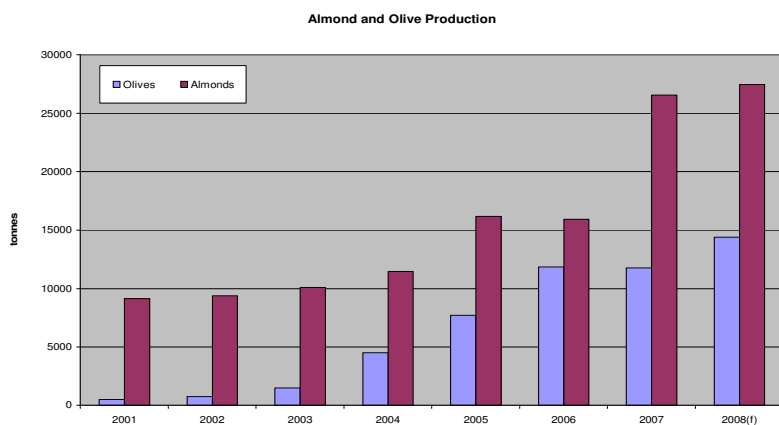
Hillston NSW

The Great Southern Almond Income projects and a portion of the Great Southern 2008 Diversified Olives Income Project are located in the Hillston area of NSW. These projects have taken land once used for an annual crop (cotton) and converted them into permanent olive and almond orchards.

The Great Southern MIS Almond Income projects have resulted in the conversion of 1250 hectares of agricultural land into the farming of almonds. These trees at maturity are expected to produce 3.5

tonnes of fruit per hectare which equates to 4375 tonnes of almonds being grown and harvested in the Hillston area annually from 2012 onwards.

Annual crops can be characterised by significant variation in production which has a flow on effect to employment, resulting in periods of under and over employment, whereas the growth in almond and olive production (as illustrated in the graph below) is consistent and is expected to continue until recent plantings reach maturity at which point output should stabilise. This consistency as mentioned earlier allows communities to plan for the future and creates employment certainty in the region.



Prior to the change of land use to an almond orchards, there were 16 people employed in full time positions; after converting the land into permanent plantings, the number of people employed in full time roles today on Great Southern almond orchard has increased to 25, an increase in employment of over 50% for what is a very young orchard. The conversion of the land into permanent plantings has also allowed for some of the previous water and land assets to be sold off to an independent third party who has since been able to farm the land and create further employment.

The Carrathool Shire Council (Annexure 14) has confirmed his support of Great Southern developments in Hillston, particularly in light of the infrastructure and employment benefits created at a time when the region is under significant pressure from ongoing drought. Great Southern has supported the region not only through direct employment but has had positive downstream impacts in the commercial and accommodation sectors of Hillston's economy, with the net result providing benefits for the town moving forward.

In addition, Almondco, one of Australia's largest almond processing, packaging and marketing groups currently processing and selling approximately 40% of the Australian crop, has directed resources to establishing their first dedicated almond processing facility in the NSW region. Almondco has indicated that this project was made possible by the scale of anticipated future almond production which almond MIS projects had brought to the region. The estimated cost of the development is \$15,000,000 and the plant will have an average throughput of 7,000 kilograms of almonds per hour, which equates to a processing capacity of 10,000 tonnes of kernel. Almondco states that the current budget for the Riverina development will result in the direct employment of at least 14 people. It is unknown how many additional jobs will be created during the construction phase, however the development will be significant with a building of approximately 5,800m² and an equipment installation phase taking nine months.

Frankland River WA

Large scale MIS vineyard development in the Frankland River region, including three Great Southern vineyards, has seen a previously struggling town flourish by boosting employment in the region and attracting young families back to the township.

Ferngrove Winery estimates that the Frankland region alone has had at least an additional 100 employees now relying on MIS vineyards, demonstrating the benefits MIS have brought to the region.

The scale of non-forestry MIS operations across Australia has required the appointment of a number of contractors to assist in the development, maintenance and management of agricultural projects. Great Southern has a policy of actively working with local contractors to meet our operational needs, utilising local radio and print media to advertise for staff, and where possible engaging the services of not for profit recruitment consultants to attract local skilled labour.

In total Great Southern has engaged the services of over 400 contractors, some of whom were owner operated businesses whilst others, such as Quenby Viticulture Services (“QVS”) have had to grow to meet the operational requirements created by the growth in Great Southern operations, resulting in the creation of numerous jobs for local residents.

Since January 2004 over \$36 million has been injected in Great Southern vineyard development. This significant investment made by Great Southern on behalf of non forestry MIS investors has resulted in QVS increasing full time staffing levels from 10 people to 37 people today, almost four fold over a four year period.

This level of active engagement between non-forestry MIS and local contractors has created a significant and steady source of employment for regional and rural Australia.

Avon Valley WA

Since 2005 Great Southern has partnered with Kailis Organic to collectively roll out over 1,500 hectares of fully planted organic groves. In total Kailis Organic manages around 705,000 trees across 1.865ha of land. Once at maturity these trees are forecast to produce an estimated 4.4m litres of organic olive oil.

This has allowed the Kailis Organic group to now employ some 24 full time (including 14 full time farm staff across the properties) and over 75 casual employees plus contribute to over four separate rural communities, namely the Baldivis, Donnybrook, Moore River and Avon Valley regions of WA.

More recently, Great Southern has assisted the Kailis group to further expand its operations by investing in the development of a new processing facility in the Avon Valley. The development of this processing facility has meant Kailis Organic has already invested over \$3.2 million, with a further \$700,00 to be invested this year, and another \$2.5 million over the next 4 years (to 2012). This will take the investment in the local region to over \$6 million over 4 years.

This processing facility will allow the olives produced in the region to be diverted towards facilities closer to the grove, thus reducing transport costs whilst maintaining the freshness of the fruit picked. The investment into the Avon Valley represents a significant and long term commitment by non forestry MIS to the region and will create an additional source of long term employment.

4.2 Strengthening regional communities

Non-forestry MIS projects, particularly those that produce income from horticultural crops, are characterised by their long-term investment time frame which commits and links investors to regional and rural Australia. Due to the nature of non forestry MIS and as illustrated in the case studies above, Great Southern has been able to make a long term commitment to regions we invest in providing long term sustainable economic benefits to the community via investment in infrastructure and the creation of additional employment to assist in the operations and management of its operations.

This commitment has not been limited to simply strengthening economic ties with local communities, but Great Southern has also been able to actively participate in the social development of our communities and neighbours by developing sponsorship and community support guidelines. These guidelines empower our regional offices and operations to actively support community events, sports clubs and not for profit organisations by providing financial support and assistance where required. This policy has allowed Great Southern to sponsor the Gingin bowling clubs, has ensured the success of the Frankland River Festival in Frankland River and has enabled Great Southern to work hand in hand with not for profit agencies in the Boh River region to source and recruit local employment to name but a few.

This extensive social benefits discussed in the above section would not have been possible had it not been for the long-term commitment made by Great Southern to rural and regional Australia.

5 Environmental benefits of non-forestry MIS

Great Southern Limited is committed to environmental best practice and to the continual improvement of its environmental performance, recognising its obligations to all stakeholders. The company's philosophy is to develop and manage agricultural projects which are sustainable, efficient and well suited to the environs in which they are established.

Great Southern's non-forestry projects are generally established for approximately 20 years. As several areas of Australia continue to be impacted by prolonged drought conditions, Great Southern has heightened its focus on strategies to both manage water resources and minimise the company's environmental 'footprint'.

5.1 Great Southern environmental management system

The nature of the MIS business and the number of investors in MIS projects means that compliance with best practice across our operations, including environmental management, is more regulated for MIS operations than for traditional farming. Corporate responsibility and bottom up pressure from investors and other stakeholders such as shareholders, industry and government, require MIS companies such as Great Southern to set up and run environmental management systems for their operations.

Environmental management systems ("EMS") provide businesses with structured ways of managing areas of their operations that have risks for the environment³, effectively reducing environmental impacts.

Although the use of EMS is not compulsory, larger businesses are more likely than small to medium enterprises ("SME") to have an EMS, mostly due to the additional resources necessary to develop such management approaches. A report from the RIRDC outlines that over 90% of the working population is employed by SME, and that these enterprises have not adopted EMS to the extent that larger firms have. Authors in the report examined the limiting factors for EMS adoption amongst SME, namely costs, time, documentation and lack of knowledge, training and resources⁴.

³ Environmental Protection Authority (SA); Eco-efficiency and the private sector contributions and benefits, March 2004

⁴ RIRDC: Adoption of Environmental Management Systems in Agriculture – Introduction, May 2005

GSL itself is in the process of aligning all agribusiness operations and processes into an integrated Health, Safety and Environment Management System (HSE MS). Through this HSE MS, all agribusinesses as a minimum will be aligned to ISO14001 (Environment). ISO 14001 is regarded as the most globally recognised environmental management standard that can accommodate GSL's diverse business needs.

A copy of the AS/NZ ISO 14001.2001 Environmental management systems – Requirements with guidance for use, on which GSL's own EMS is being modelled on (Appendix 15)

5.2 Great Southern water management

Great Southern purchases water licences appropriate to the scale of the company's operations. Great Southern water management operations are directly feeding into the efficiency objectives of the National Water Initiative Strategy ("NWI")⁵.

Great Southern responded to the need to manage its valuable water assets in the challenging regulatory and operating environment by establishing a Water Resource and Development business unit (WRD) in 2007. The WRD team, headed up by the National Manager for Water Resources and Development is responsible for managing existing water resources that include the following responsibilities:

- (i) Managing an effective water compliance program providing licence compliance and water usage compliance
- (ii) Achieving consistency in water budgeting, water usage reporting, and operating protocols between assets
- (iii) Providing leadership and decision support to managing water use efficiency on farm, including installation and maintenance of industry best practice irrigation systems
- (iv) Managing water security risks and opportunities, including those associated with climate change, for the company's assets
- (v) Assisting and directing research and development into future projects as well as into improving existing projects.

Great Southern's National Manager, Water Resources and Development, ensures a coordinated and strategic national approach to the management of the company's water resources, ensuring the company is compliant with the complex and comprehensive regulatory framework that manages water under the National Water Initiative; as well as meeting each state government's individual legislative requirements, and managing water use efficiency across the company's operations.

Water values, like land values, are highly dependent on the value of the crop that can be grown with that water. Since it has become possible to trade water independently of land, water values have become a function of the availability and demand for water as well as the reliability of the water entitlement and overall value of the crop being grown.

Ultimately it is economic factors and not MIS that are driving the value of water.

As mentioned previously in this submission all Great Southern's olives and almonds operations water supply comes from higher security underground water; only our vineyard assets feed off river systems as follows:

⁵ NWI 11 objectives <http://www.nwc.gov.au/www/html/672-objectives.asp?intSiteID=1>

Source	Location	% Vineyard Area
Murray Darling Basin region	Murrumbidgee River, NSW	7%
	Murray River, VIC	14%
	Murray River, SA	35%
Groundwater	Lower Murrumbidgee Groundwater	3%
	Langhorne Creek	3%
	Barossa	2%
	Coonawarra	1%
	Adelaide Hills	3%
Pipeline	Grampians, VIC	6%
Runoff	WA	27%

The entire Murray Darling region continues to be seriously impacted by drought, with record low inflows to upstream storages still being recorded. Despite this situation all Great Southern MDB region vineyards had sufficient water availability to allow normal production in the 07/08 season with no serious impacts on average on forecast yields or quality. This was as a result of a combination of purchases of temporary water transfers to make up shortfalls when required and diligent water management on vineyards.

Such water management practices are constantly being reviewed. Great Southern's farms are generally equipped or have plans to be upgraded with state of the art irrigation and soil water monitoring equipments that promote more efficient use of water. In addition, a range of simple, yet highly effective water saving methods are regularly introduced across our vineyards, almond and olive operations. For example, by planting grass swords in the rows between vines, our viticulture team has developed a natural system for improving soil health, reducing water evaporation and managing weeds. Vine canopies are managed and trained to hold more water and become more self-sufficient.

A total of 770 ML temporary transfer water was purchased in October 2007 (representing 0.60 ML/ha of a total average requirement of 3.94 ML/ha for Murray Darling Basin vineyards) to ensure sufficient water supply to complete the 07/08 season.

Water requirements for the 08/09 season have been constantly under assessment since February 08. Average purchase price to date for 08/09 water has been \$492/ML for 1,889 ML (vs \$1,050/ML last season), all of which have been at no cost to the investor in view of the projects shared revenue structure. At this stage, there is sufficient trade water still available in the Murray Darling system to allow further top up if required, although it is expected that prices will increase as the season progresses.

The higher price in October 2007 was market average price at that time and reflected the low availability and peak demand of water for transfer at that time of the year. The lower price this season reflects a strategy to access water earlier in the season when prices are lower rather than wait and having to compete with all other agricultural players at the peak of the season. Such strategies are open to any sustainable business structures including traditional farming.

Water efficient land use driving investment decisions

MIS operators are financially able to redirect existing land to more efficient and sustainable use, an example of which is explored in the following Case Study where GSL purchased a cotton operation and converted it to a higher value almond orchard.

The almond crop is a much higher value crop, producing an estimated profit per ML of 1,250% higher than cotton as illustrated in the table below:

Irrigated Farm Comparison - 2007		
	Conventional Cotton	Almonds
Yield per ha	7 bales	3.5 tonnes
Price	\$450 per bale	\$6,000 per tonne
Revenue per ha	\$3,150	\$21,000
Growing costs per ha	\$2,700	\$11,500
Net profit per ha	\$450	\$9,500
Water use per ha	9	14
Profit per ML	\$50.00	\$678.00

The water delivery system employed on the almond orchards is also more efficient than cotton, with the use of a drip irrigation system. Great Southern has designed its almond irrigation channels to minimise surface evaporation and seepage and the orchard's state of the art soil moisture monitoring system also ensures the almond trees get the optimal amount of water with minimal wastage.

5.3 Going organic

Kailis Organic and Great Southern have been practicing organic management of olive groves since 2005 and have a strong understanding of the grove management and processing requirements to practice clean and environmental sustainable agriculture with the ultimate goal of achieving organic accreditation.

Kailis Organic reports that Great Southern and the MIS industry has led to the development of best practices in both land management and water conservation, including a state-of-the-art irrigation plant at the olive grove.

Great Southern's Environmental Management System ensures the company adheres to sustainable environmental management across its non-forestry operations.

5.4 Sustainable everyday environmental practices

Sustainable everyday environmental practices applied across Great Southern operations include examples such as:

1. The establishment of a cereal crop called sudax in every second row in our almond groves to preserve and promote excellent soil health as well as assisting with water infiltration into the growth. The leaf matter provide by these annual species supports microbial activity, which is also good for soil health.
2. Water for irrigation purposes in the WA South West region is harvested and stored on the property. Various catchments have been constructed and treated with silicon based coatings to maximise run off. Great Southern contractors are also experimenting with various products applied on the surfaces of dams to reduce evaporation, with some very encouraging early results.
3. All Great Southern vineyards use a mineral based fertilizer program so as to minimise any environmental impact and increase sustainability. Sheep are being used in the vineyards during the dormancy period so as to reduce the herbicide input. Trials of biological controls of various pests and diseases are being conducted across properties, with some encouraging results.

6 Conclusion

Great Southern Limited, as a major participant in the non-forestry managed investment scheme sector, applauds the Federal Government's initiative in conducting a thorough review of the industry.

As has been demonstrated through this submission, the non-forestry MIS industry has brought a number of tangible benefits to rural and regional Australia since its inception. It has led to the creation of thousands of new jobs – both direct and indirect – the vast majority of which are in rural and regional areas. The sector has been responsible for the development of several new, export-focused industries, most notably the Australian olive industry which has been almost entirely driven by MIS.

There is no special tax treatment for investors in agribusiness managed investment schemes. Investors are subject to similar tax regime as anyone engaged in primary production, and overall there is a significant net gain to the public coffers from the sector in terms of the amount of tax raised over the life of the projects.

Managed investment schemes provide a high degree of regulation and oversight for investors, ensuring that their interests are adequately protected. Moreover, most of the major companies in the sector, including Great Southern Limited, are ASX listed entities with a further level of scrutiny and regulation.

Great Southern believes the best outcome for regional Australia is the introduction of policies that facilitate and encourage long-term, sustainable investment in all forms of agriculture, with the key objective being an expansion rather than a scaling back of the development of new industries with all the benefits these deliver.

7 Annexure List

1. Great Southern 2008 Almond Income Project PDS
2. Great Southern 2008 Diversified Olives PDS
3. Lonsec Industry Outlook Almonds August 2008
4. Great Southern 2008 Wine Grape Project PDS
5. AAG Agribusiness MIS Industry Report of Capital Raised July 2008
6. Goldman Sachs Food Feed and Fuel
7. ABS 4102.0 Australian Social Trends 2003 – Living arrangements Farming Families
8. ABARE Australian Commodities Productivity Growth March 08 vol 15 no1
9. 2006 AIMA Research Report – Financial Performance of the Wider Agribusiness Sector
10. AWBC 2007 Supply and Demand Assessment
11. AWBC Wine Australia Directions to 2025
12. Deloitte Annual financial benchmarking survey for the Australian wine industry vintage 2007
13. Great Southern 2008 Wine Grape Income Project Product Ruling 2008-45
14. Letter - Carrathool Shire Council Mayor 05.08.08
15. AS/NZ ISO 14001.2004 Environmental management systems - requirements with guidance for use