



GOVERNMENT REVIEW OF NON-FORESTRY MANAGED INVESTMENT SCHEMES

A Submission by Kailis Organic Olive Groves Ltd

Opening Statement

Kailis Organic Olive Groves was established in 2001 by Western Australia's Kailis family with the ambitious goal of becoming the world's largest global organic premium extra virgin olive oil brand.

With the capital-intensive nature that goes with a goal like this, and knowing it would be several years before our olive trees would grow into mature, profitable groves, we set out to find a business partner who would deliver the farm infrastructure that we needed while still allowing us to manage and oversee the project.

Great Southern Limited was to become that partner and over the past four years Kailis Organic Olive Groves has collectively rolled out 1,865 hectares of organic groves with support from Great Southern.

The Kailis Organic group now has 24 full time employees and more than 75 casual employees, and has operations based in four rural areas. It is therefore contributing to four rural economies by providing both direct and indirect employment and other positive flow on effects. Our operations also offer these communities a direct link to what is one of the fastest growing food sectors in the world - organic agriculture. Kailis Organic has already invested over 3.2M, with a further 700K to come in this year, and another 2.5 over the next 4 years (to 2012). This will take the investment in the local region to over 6M over 4 years. This expenditure is for building processing equipment required to handle fruit grown on the Preston Valley and Avon Valley Projects.

Our philosophy has always been to actively encourage locals to become involved in organic agriculture. This is displayed by the programs we run on how to farm organically and our positive approach to sustainable agriculture and active land care. Our operations also provide a better supply chain for other locals to benefit from and we maintain and educate the local work force with organic farm management practices.

Given the success of the organic food market in both Australia and overseas, and the focus we place on exporting our product into that market, we believe our business positions the local communities we operate in by positioning them as clean, sustainable agriculture regions in the eyes of the world.

Kailis Organic, local rural communities, and the hungry organic export market are the true benefactors of Great Southern and opportunities presented by non forestry MIS over the past four years. And we look forward to seeing this model develop further so more can be done to reach out and supply the world with organic food produce.

Kailis Organic would urge the review committee to look closer at our model and the good work we have done, and can still do, given the MIS opportunity is allowed to evolve with organic agriculture.

A handwritten signature in black ink, appearing to read "Mark Kailis".

Mark Kailis
Managing Director
Kailis Organic Olive Groves

Supporting Information

Economics

1. The organic products industry is quickly growing internationally.

The demand for organic products is growing, with organic food sales estimated to increase in the USA by 17% per annum between 2007 and 2010. Other Western countries are experiencing similar growth rates with concerned and discerning consumers becoming more conscious of the environment and more aware of the high quality organic produce available.

This increasing demand for organic products is also fuelled by consumer concerns, in particular in Northern Europe, through the Mad Cow's Disease and the Foot and Mouth epidemic. The demand is now such that it is difficult for producers to maintain a reliable supply.

The market for organic produce is growing. The Kailis family has been producing organic olives since 1991 and has developed knowledge and understanding of the horticultural and certification requirements. This knowledge has been passed onto Kailis Organic, which is poised to become one of the largest single vertically integrated producers of organic olive oil in the world, with a significant lead on any competitor who wishes to replicate the product because the certification process to become an organic producer takes at least three years.

The volumes which will eventually be produced by the company is a major benefit as it allows them to approach major distributors throughout the world, the USA in particular, and offer large volumes of quality product, with the ability to prove their ability to supply – a critical factor in these major markets.

2. The Olive/Olive Oil industry is growing as the market for olive products increases internationally.

Kailis Organic has undertaken significant research into international markets and sales research, developing long-term strategic plans in conjunction with Synovate, a leading market research and brand development adviser.

The company has positioned itself within two markets that are forecast to continue to grow – that of olive oil and organic olive oil. Aside from this strategic positioning, Kailis Organic also enjoys significant competitive advantages as it starts its marketing activities into the global organic olive oil market.

The demand for olive oil is growing at a steady rate, estimated to be between 1.5% and 2% per annum since 1998/99 as the western world continues to become more aware of the health and flavour benefits associated with olive oil versus traditional vegetable oils.²

Global production of olive oil is estimated by the International Olive Oil Council to be approximately 2.8 million tonnes per annum, and is estimated to be growing at about 2% per year compounding – though in certain markets that growth rate is more significant. Annual consumption is higher at approximately 2.9 million tonnes.³

Market research anticipates ongoing consumption growth in both extra virgin olive oil and organic products in the USA, UK, France, Germany and Japan over the next 6 years

¹ 2007 OTA Manufacturer Survey www.ota.com

² International Olive Oil Council (Nov 2007) www.internationaloliveoil.org

³ International Olive Oil Council – World Olive Oil Figures www.internationaloliveoil.org

3. To build an international brand in this industry is impossible without an assured supply of olives.

Kailis Organic was established with the vision of creating the first truly global organic premium extra virgin olive oil brand. Backed by a driven and experienced team, the Kailis Organic brand has the opportunity to carve a unique position in the ever expanding premium olive oil market. The company has undertaken significant market research and invested in the development of its brand to ensure the necessary fundamentals are in place to capture a significant market share both at home and abroad.

Through its established grove management, processing and packaging, and sales and marketing channels, the company is a vertically integrated enterprise with the passion for 100% organic practices demonstrated on all levels.

Kailis Organic has long term supply and management contracts in place, which will ensure a revenue stream through olive grove management. It also has the protection of knowledge associated with organic olive groves and management and control of the certification process to confirm its organic status. Significant increases in production volumes both the organic olives and the oil derived from those olives is scheduled for 2012. Beyond 2012, the volumes continue to increase rapidly until achieving the anticipated maximum volume of 4.4 million litres of Extra Virgin Olive Oil (EVOO). The company's established relationships will be vital in moving the increasing volumes through these existing and new distribution channels without any shift to lower quality and with limited diminution in price.

4. The olive industry is focused on international markets and not domestic markets although significant opportunities to continue replacing olive oil imports exist.

The consumption of both olive oil and organic product is increasing all over the world. Factors that are contributing to this increase include:

- Improved marketing by the International Olive Oil Council;
- Recognition of the health benefits associated with olive oil;
- Increased use of take away and pre-prepared foods;
- Increased dining out;
- The Mediterranean diet becoming more popular;
- Increased use of olive oil and table olives as ingredients; and
- Greater enjoyment of the flavour of olive oil

Environmental

1. Environmental benefits of organic versus conventional farming methods.

Kailis Organic has been practicing organic management of olive groves since 1991 and has a strong understanding of the grove management and processing requirements to achieve organic accreditation.

To be classified as organic requires certification by accredited organisations and the certification process means that not only has the produce been organically grown, but that it has been harvested, prepared and transported via systems and processes that guarantee the product is not contaminated by synthetic chemicals and that it is not irradiated.

Organic agriculture dramatically reduces external inputs by refraining from the use of synthetic fertilizers and pesticides, genetically modified organisms and pharmaceuticals. Pests and diseases are controlled with naturally occurring substances according to both traditional and modern scientific knowledge, increasing both agricultural yields and disease resistance. Organic agriculture adheres to globally accepted principles, which are implemented within local socio-economic, climatic and cultural settings.

Agricultural contaminants such as inorganic fertilizers, herbicides and insecticides from conventional agriculture are a major concern all over the world. Eutrophication, the suffocation of aquatic plants and animals due to rapid growth of algae, referred to as "algae blooms", are literally killing lakes, rivers and other bodies of water. Persistent herbicides and insecticides can extend beyond target weeds and insects when introduced into aquatic environments. These chemicals have travelled up the food chain whereby top predators often consume toxic dosages. Organic agriculture restores the environmental balance and has none of these or other such deleterious effects on the environment.⁴

2. Clean, green environment and Industry best practice

GS and the MIS industry have allowed the development of best practices in both land management and water conservation. The initial large upfront capital investment has ensured land care with a consultative approach with government agencies, and decisions being made to protect both native flora & fauna in both the development and long term management planning. A state-of-the-art irrigation plant complete with efferent pumps, filtration and drip tube, plus Gipson in-ground water probes, feeds back to the main station, then via telemetry back to base, ensuring overwatering does not occur. This process is governed by a central computer.

3. Research and Development

Expertise in organic olive management practices has assisted in the development of a three year research & development project relating to the biological parameters for successful organic agriculture.

Market and industry data exists in establishing the correct physical and chemical inputs into a successful agricultural project – however it is the biological component that leads to an organic management program being successful.

Kailis Organic has pioneered this process by working with universities to study the makeup and growth of the olive tree, and has established a clear set of biological parameters in an effort to test its hypothesis and define the right balance of biological inputs. It is anticipated that this process will ultimately lead to improving yields and crop efficiencies.

⁴ http://www.ifoam.org/organic_facts/benefits/index.html

Social

1. Increasing Scale of Kailis Operations

Kailis Organics management has more than 14 years experience manufacturing extra virgin olive oil in Australia and is also responsible for blending of the final product. The team works together to ensure harvested fruit is quickly progressed to final milling (16 to 24 hours) and the final blended organic extra virgin olive oil reflects the highest world standards in excellence.

With the addition of a fourth grove, Dandaragan Olive Grove to the portfolio, an additional 383ha of olive trees will significantly increase the groves under management. The horticultural team will immediately start conversion of this plantation to organic processes, with the view to achieving full certification for the property within a few years. In total, Kailis Organic manages around 705,000 trees across 1,865ha of land. Upon maturity, these trees are forecast to produce an estimated 4.4 million litres of organic olive oil.

Currently, Kailis Organic employs a total of 14 full time farm staff across the properties.

2. Development of high quality expertise in Organic Horticulture

Kailis Organic has an experienced team of horticultural, business and food professionals with a passion for the Kailis Organic story. Our staff has enormous agricultural and scientific knowledge and broad qualifications.

The mill operating team has had extensive training in Italy as well as completing an advanced olive assessment course promoted by the Australian Olive Association. The team has also completed training by acknowledged European leaders in this field within Australia and continues to advance its knowledge through high-level interaction in international olive processing and blending forums.

Kailis Organics management has had more than 14 years experience in Extra Virgin Olive Oil manufacturing in Australia and is also responsible for the blending of final product.

3. Bringing infrastructure to regional areas (new processing plant)

As previously stated Kailis Organic has already invested over 3.2M, with a further 700K to come in this year, and another 2.5 over the next 4 years (to 2012). This will take the investment in the local region to over 6M over 4 years. This expenditure is for building processing equipment required to handle fruit grown on the Preston Valley and Avon Valley Projects. These processing facilities will be made available to any olive farmers and any olive fruit grown in the area, with the long term objective of converting those farms to organic standards and therefore maintaining the organic status of the processor.

4. Educating and helping broader agricultural

Kailis Organic actively participates in many domestic and selected international olive oil competitions each season. Many of the competitions are held in rural communities and are attached to local agricultural shows. Mark Kailis is a qualified judge of olive oils and is invited to attend various shows each season to be a part of the judging panel, including the Perth Royal Show. Mark is also a member of Biological Farmers Australia and is frequently invited to participate in conferences and deliver information on the topic of organic agriculture. Field days are openly supported by Kailis Organic; this allows the local farming groups to understand our organic philosophy from both a technical and practical perspective. These events are usually held in conjunction with our certifiers ACO, and further offers external support via third party introduction that has as its catalyst Kailis Organic and the MIS/Great Southern supported organic olive groves.