

Review of Non-Forestry Managed Investment Schemes

Submission by Select Harvests Limited “SHV”

Introduction

The Government seeks submissions regarding non-forestry managed investment schemes “MIS” to enable a comprehensive review of the costs and benefits of these schemes as part of the Governments’ plan for primary industries. The Government has published an issues paper and has advised:

- the review will take an evidenced based approach to whether non-forestry MIS are an effective tool for attracting investment to rural and regional Australia
- the review will examine the economic, social and environmental impacts of non-forestry MIS.

MIS projects represent 62% of Australia’s total almond acreage equating to 40000 acres which represents approximately \$1 billion dollars in direct investment. In general MIS projects have adopted best practice orchard management techniques, and have a strong focus on irrigation efficiency, utilizing the latest in irrigation technology. MIS projects are active participants and contributors to industry activities.

This submission has been prepared in the context of the Australian almond industry and in the broader context of the international almond industry.

Profile of Select Harvests

SHV is listed on the Australian Stock Exchange with a market capitalization of \$250 million, 4800 shareholders and more than 300 full time staff.

SHV has been growing almonds for over 30 years in North West Victoria, and for many years was Australia’s largest individual grower. Today our core business is the management of almond orchards (SHV manages approximately 38,000 acres, equating to around 65% of Australia’s acreage) and the marketing of almonds (2008 almond crop was 15,000 mt equating to 58% of Australia’s production).

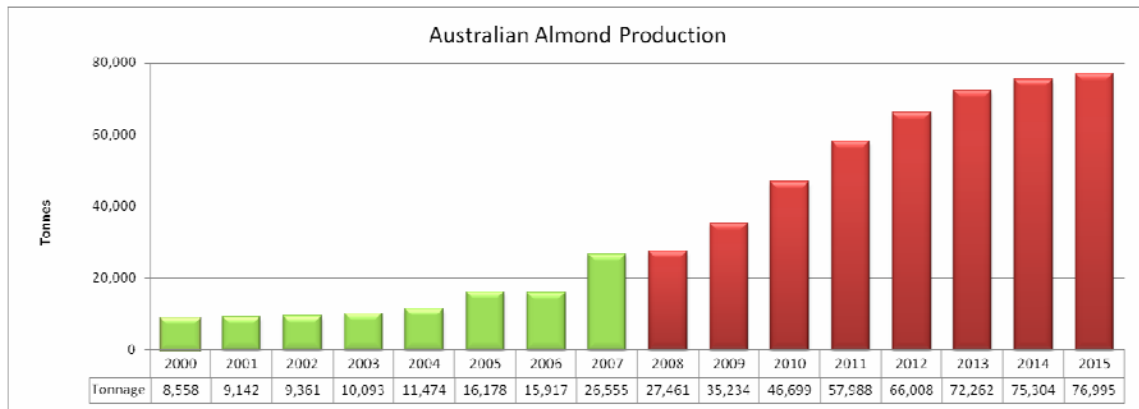
Over the last 10 years SHV has developed 36,000 acres of new almond orchards predominantly for MIS projects positioning us as the largest grower in the world alongside Paramount Farms in California.

We estimate these new developments will create approximately 300 FTE jobs as well as substantial economic activity in the local community. To process our future crops SHV has recently spent \$35 million on a state of the art almond processing facility in Robinvale, Victoria. At full capacity this facility will support 40 FTE jobs.

SHV is a leader in both the Australian and international almond industries and for a number of years has operated a world competitive almond operation, delivering strong returns to our shareholders. International competitiveness and further opportunities to leverage mechanization and scale encouraged us to further expand the acreage under our management. The investment for this expansion has come from a number of sources including individuals, superannuation funds and the MIS sector. The key criterion attracting this investment has been Australia’s competitive advantage and increasing world consumption.

Response

The Australian Almond industry has undergone a period of rapid expansion in recent years positioning it as a major global player.



The investment for this expansion has been substantially facilitated by the MIS sector, which has developed approximately 40000 acres of new almond orchards and as a result contributes approximately 62% of Australia’s total almond acreage.

We estimate the development cost of this new acreage to be approximately 1 billion dollars at farm level with additional investment in processing assets as crops mature. This investment has created long term employment, activity for a wide range of service providers, and a major stimulus to local communities. Australia is a net exporter of almonds and while we anticipate domestic consumption will continue to grow, the majority of future production increases will target increasing world consumption.

Clearly for the Australian almond industry, **MIS has been an extremely effective tool in attracting long-term investment in rural and regional Australia** and in facilitating growth, scale and international relevance for the industry.

The MIS sector is at times viewed as a separate and distinct group and assessed on that basis. In fact they are a class of investors in a range of industries and the impacts they influence should be viewed within the context of the specific industries in which they invest.

In respect to almond growing the risk profile, operations and returns of MIS projects are similar to other operators in the industry. SHV orchards are managed on a consistent basis regardless of the particular investor, orchards are operated under an agreed management plan, in line with best horticultural practice and incorporate Occupational Health and Safety, Environmental and Food Safety management systems. SHV uses the latest irrigation technology, and annual water application is significantly below the industry norm. SHV is an active participant in the almond industry, with representation on various industry bodies. All our growers/investors are contributors to industry levies and marketing programs The Australian almond industry is located in rural Australia and has good environmental and social credentials which are being replicated by MIS projects. The increased size of the industry has facilitated additional investment in production research and development, and generic marketing programs which will benefit all industry participants going forward

The tax arrangements previously available to MIS investors are the same as those available to other growers who participate directly in the almond industry. Recent changes to the tax status of MIS investors disadvantages them against other investment classes, effectively blocking further investment and removing this avenue for attracting future investment into the industry.

The stalling of MIS investment, together with the uncertainty around water supply has seen a virtual curtailing of new almond developments, and a rapid slow-down of industry growth. This is negatively impacting local economies already suffering from the detrimental effects of a prolonged drought.

The Australian almond industry is internationally competitive, an efficient and high return converter of water, able to produce a sustainable return with significant further growth potential. MIS investment has a proven record of facilitating long term investment in rural Australia which will be an imperative to rebuild communities significantly impacted by the prolonged drought. Without the availability of corporate investment it is unlikely the Australian almond industry will continue to grow and achieve its full potential.

Economic Social and Environmental impacts of MIS

The participation of corporate investors in primary industry, particularly MIS, can be an emotive issue in certain sectors particularly those impacted by drought and downturn in specific industries.

Common areas of concern are:

Increased water usage and increased cost

Water usage

Total water usage out of the river systems is regulated and capped. MIS projects have purchase water rights from existing users and have not created any additional usage of the overall water resource. The operation of a water market over the last ten years has seen the diversion of water licenses to high value horticulture, usually from lower value activities such as dairy and pasture.

Current reduced allocations against permanent water licenses are the result of reduced supply from the prolonged drought not increased usage.

MIS almond orchards use the latest irrigation technology and are very efficient users. The provision of dam capacity on orchards has been targeted as an additional drain on water supply. In large projects dams are a requirement of water authorities as a risk management tool, and to regulate

water demand to assist river flow management. Total water use is restricted by specific water licenses and the use of dams does not result in any additional water usage above licensed volumes.

Water costs

Water rights, both temporary and permanent, are traded on a water market which is available to all users. Almonds historically have produced returns of around \$2,000 per megalitre. This compares favourably with figures published by The Victorian Government (horticulture \$1535 dairy \$637 livestock, pasture and grains \$72 per megalitre). The water market facilitates movement of water licenses to the industries with higher returns and capacity to pay, it also provides existing licenses holders operating in lower return activities an exit strategy with a good capital return. It is competitiveness of the almond industry rather than MIS investment that allows a higher entry cost to be paid for water licenses by almond investors. An MIS investor in a lower return industry would be no better equipped to compete with an almond grower for water than any other participant. In the current environment the cost of both temporary and permanent water is being impacted by lower supply due to drought.

Impact on returns of existing or smaller growers

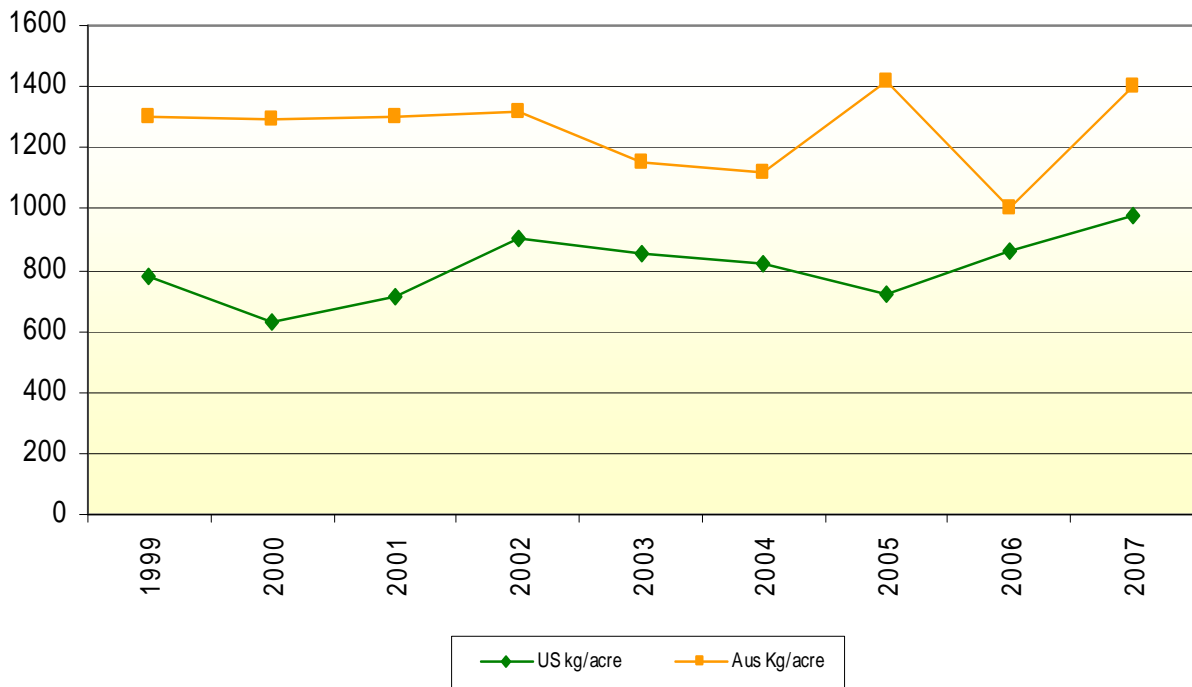
Supply

Negative sentiment about MIS projects is commonly in relation to over supply, however in most industries MIS projects are relatively new and not fully productive and to date the link to over supply is more perception than fact. Clearly increased investment in an industry will increase supply which can result in over supply and lower prices if not matched with increased demand

Long term sustainability in a free world market demands international competitiveness For Australia to survive as an agricultural player it is a fundamental requirement that we are world competitive and able to compete effectively on price and quality. Local industries which are unable to sustain this position will not survive unless they have the benefit of barriers to entry which allows them to operate in the domestic market at a price premium (eg fresh food and perishables). These industries are limited to the domestic market and need to closely manage supply in line with domestic demand as any surplus supply is likely to be exported at a loss.

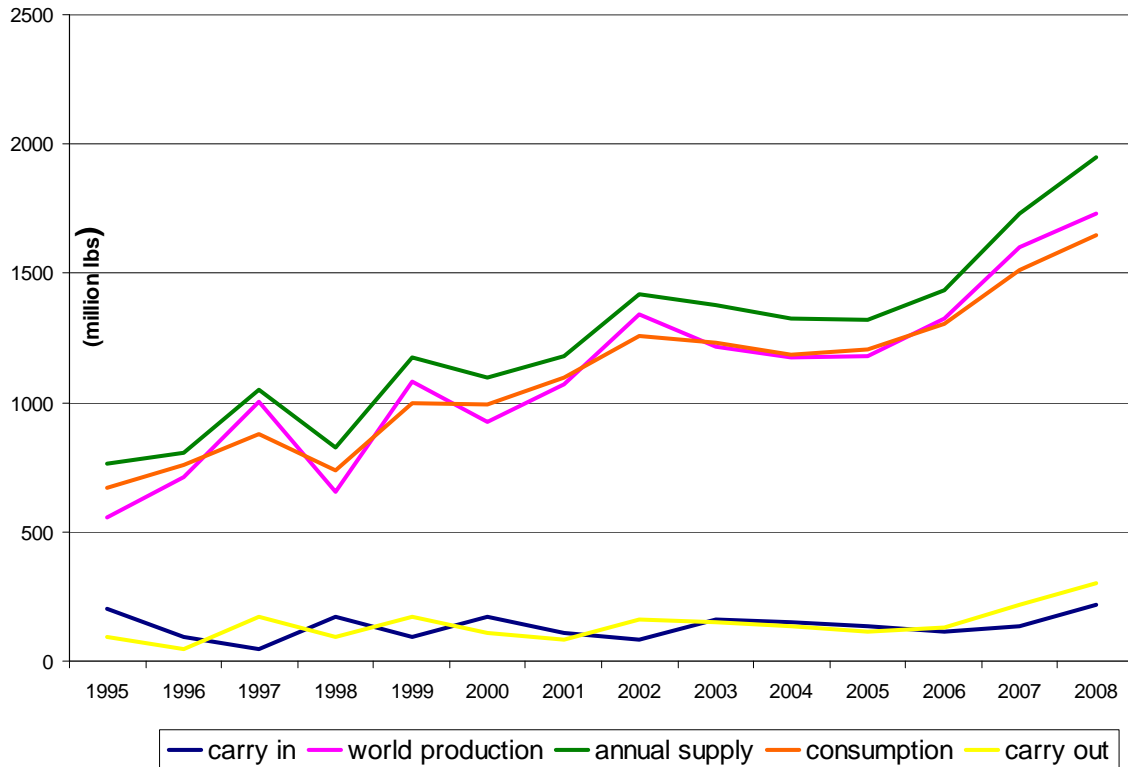
Industries which have effective competition from overseas with minimal barriers to entry (eg almonds) need to compete effectively. Australian almond growers have created a competitive position by producing higher yields on a similar cost base to our major competitor USA.

Comparison of USA yields against Australian yields



This gap is closing and sustainable competitiveness will be driven by mechanization and scale creating efficiency. This requires large scale investment which by definition will be in some form of corporate investment.

The international almond market has been in a sustained period of growth for over 20 years driven by production increases from USA. Over that period increased production has been matched by growing world demand and these fundamentals look set to continue.



Australia contributes 4% of world almond supply and this is unlikely to rise above 10% in the future given land and water constraints. We therefore have minimal impact on total world supply and the world almond price.

We have a strong market for our increasing supply on the basis we are cost competitive and all Australian growers have access to the international market and achieve similar prices. Therefore increased supply will not disadvantage smaller growers from a price perspective, in fact industry growth has increased marketing activity which will assist all growers going forward,

Costs

The costs of farm inputs (labour, machinery, fertilizer, fuel, power etc) are similar for all participants. Larger participants have the benefit of scale which will provide efficiency gains not necessarily available to the smaller grower. This does not however increase the costs of the smaller grower or change their competitiveness or the returns they have historically achieved, Small operators have the challenge of maintaining global competitiveness if other countries become more efficient. Larger industry participation is

providing more investment in research and development and production improvements which assists the competitiveness of all growers.

Conclusion

Australian Almonds is a world class industry with significant competitive advantage and substantial growth potential based on increasing world demand. The resultant scale assists both small and larger growers and the industry has shown an ability and willingness to operate as a coherent industry with the varying classes of investors. The industry operates in rural Australia and is developing long term sustainable assets that create employment and economic activity. Continuing growth requires corporate investment and the MIS sector has proven to be an effective source of capital. The issues facing small growers in relation to scale, competitiveness and high exposure, in some cases in uncompetitive industries will continue to exist regardless of MIS sector investment.

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