Gunns Plantations Ltd (GPL)

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Inquiry into agribusiness Managed Investment Schemes (MIS)

Issue Paper Response

30 June 2009

NOTE: Gunns Limited and GPL are members of the National Association of Forest Industries (NAFI) and hence we would also refer you to the joint submission made by NAFI/A3P.

Response to the Terms of Reference

Having regard to the recent collapses of Timbercorp and Great Southern, the Committee will inquire into and report by 7 September 2009 on Agribusiness Managed Investment Schemes (MIS), with particular reference to the following terms of reference:

Terms of Reference #1: Business models and scheme structures of MIS;

Gunns Plantations Ltd (GPL) is a wholly owned subsidiary of Gunns Limited and was established for the specific purpose of providing third party investors (the Australian public) with the opportunity to invest in the continued development of high quality forestry plantations, or horticultural resources that would provide for future industry demands.

GPL was established in November 1999 and since that time has released thirteen offer documents in plantation forestry, wine grape and walnut production. The organisation has over $575 million worth of funds under management. Its investment offerings have been highly rated by the independent research houses that specialise in this field.

GPL's parent company, Gunns Limited (Gunns), was established in 1875 and has a 134 year history in the timber industry. Gunns is Australia's largest fully integrated forest products' company and has clearly positioned itself as a premium provider of quality wood products (veneers, sawn timber and wood fibre) throughout Australia and the world.

The high quality plantation forestry and wine grape resource developed by GPL on behalf of Growers is available for potential use by Gunns. It is a resource that Gunns would otherwise have needed to fund via another form of funding. This has enabled Gunns to focus the use of its own capital on the acquisition of businesses – businesses aimed at strengthening the Gunns group and its ability to downstream process and market wood products into the future. Over recent years it has consolidated its position as Australia's leading fully integrated forest products company with acquisitions such as:

- Boral's plantation and forestry assets and woodchip export business in 1999;
- North Forest Products' plantation, nursery and export woodchip operations in 2001;
- Wesfarmers' jarrah sawmilling assets in WA in 2004, and
- Auspine Ltd's softwood plantation, sawmilling and export woodchip operations in S.A./Vic and Tas in 2008

Gunns has established markets for approximately four million tonnes of wood per year and it employs around 2,600 people in Australia, New Zealand and Japan. Gunns manages in excess of 200,000 hectares of plantations on behalf of investors in GPL, joint venture partners and itself. Gunns first started developing plantations in the 1940's in Tasmania and in the 1920's in the Green Triangle. In addition to its large plantation management business, Gunns' operations include:

- eight timber sawmilling operations, including one in Western Australia, one in South Australia and six in Tasmania;
- one veneer mill in Tasmania;
- a dedicated softwood log export facility;
- five existing woodchip export mills and four deep water port facilities in Tasmania and Victoria;
- well advanced plans to build a world-scale pulp mill at Bell Bay, north eastern Tasmania. The mill, when operating at capacity will require up to 3.9 million tonnes of wood per annum. Gunns' has already committed $150 Million worth of its own funds to the project.
- a world class nursery which produces in excess of 18 million seedlings per annum for use in Gunns' and GPL's plantation operations and is capable of producing up to 600,000 vine plants for its viticultural operations (VINA accredited);
- a research and development facility which is the only one of its kind owned by a supplier of woodchips in Australia. The facility has been awarded certification by the National Association of Testing Authority (NATA);
- an award winning cool climate winery, Tamar Ridge Estates (TRE), in the Tamar Valley, Tasmania;
- wholesale timber outlets in most Australian capital cities;
- eight retail hardware stores;
- a Tasmanian based construction business (Hinman, Wright & Manser); and
- the operation of a Tasmanian National Trust listed Heritage property, Entally House.

Gunns' Tasmanian based forest operations (including those managed on behalf of Growers in GPL's forestry investment projects) are certified to the Australian Forestry Standard (AFS). Gunns was the first Australian forest products company to have its forest management practices certified to an internationally recognised standard (namely AFS/PEFC) and the first Australian forest products company to achieve Chain of Custody for its forest operations.

GPL was initially established to offer investment exclusively in plantation forestry and to this date investment in plantation forestry represents approximately 93% of its funds under management.

The wood being grown under GPL's forestry investment projects is seen by Gunns as an important source of high quality wood resource in fulfilling its contractual commitments and growth plans.

In addition to the acquisitions outlined above, Gunns Ltd acquired Tamar Ridge Estates (a leading Tasmanian based wine company) in April 2003 and subsequent to the purchase, GPL extended its investment offerings to include wine grape production. The same business model applied; that is that the grapes to be grown under GPL's wine grape investment projects were seen by Tamar Ridge Estates (TRE) as being an important source of high quality grapes to fulfil its existing commitments as well as growth plans.

In September 2005, Gunns, GPL and Webster Limited (Australia's largest walnut producer and walnut orchard manager) entered into an agreement to develop Walnut orchards in the Griffith region of the Riverina, NSW and once again a similar business model was applied. That is, that the walnuts to be grown under GPL's Walnut investment projects were seen by Webster Limited (Webster) as being an important source of high quality walnuts to meet both its existing commitments as well as growth plans.

In fulfilling its responsibilities to investors in its agricultural investment projects, GPL will draw upon Gunns' considerable experience in plantation establishment and management, Tamar Ridge Estate's considerable experience in vineyard management and Webster Limited's considerable experience in walnut orchard management.

One of the hallmarks of GPL's forestry investment offerings have been the company's steadfast commitment to only developing grower's plantation investments in high rainfall regions with existing, well established plantation based forest industries; namely Tasmania (hardwood and softwood) and the Murray Valley (Tumut/Tumbarumba) region of NSW (softwood only). The plantations have all been established within economic cartage distances of established processing plants and infrastructure, much of which Gunns owns. In addition, GPL has steadfastly committed itself to only offering forestry investment in well established and proven forestry species, namely E. nitens (shining gum), E. globulus (Tasmanian Blue-gum) and P. radiata (Radiata Pine).

It is our belief that this has substantially reduced the risk to investors in GPL's investment offerings.

Another business rule that GPL has steadfastly committed itself to is to NOT extend its Australian Financial Services Licence (AFSL) to external persons/parties. Instead GPL deals exclusively with independent licensed dealer groups and their financial advisers.

Gunns can therefore be thought of as forest products company with existing markets looking for off balance sheet investment to fund its sustainable plantation development as opposed to an MIS company (specifically reliant on MIS) looking to develop markets and infrastructure.

The key points of the GPL's business model for agricultural investments can therefore be summarised as follows:

- Grower investors have off–take agreements for a significant component of their investment produce with leading organisations in their field. Namely with:
  - Gunns Ltd (plantation wood),
  - Tamar Ridge Estates (wine grapes) and
  - Webster Ltd (walnuts)
- GPL's does not extend its AFSL to external parties, such as advisers and accountants.

- All forestry plantations are restricted to proven, high rainfall growing regions that are located within closed proximity to existing markets and processing plants.
- **GPL only represents 10-15% of the revenue of the Gunns' group, with the bulk of the revenue being sourced from Gunns' forest products business including veneers, sawmilling and wood fibre export**

It is GPL's view that the agricultural MIS industry in Australia is already highly regulated. Further, it is the belief of GPL that the recent collapses of the two MIS Companies related to the impact of the non-forestry test case, the global financial crisis, as well as the specific business models adopted by these organisations as opposed to the MIS investment model itself.

Terms of Reference #2: The impact of past and present taxation treatments and rulings related to MIS;

The State governments of Australia have historically been responsible for the establishment and development of the bulk of the plantation estate within Australia. In the early 1990's there was a shift in this ownership away from the States as many of the states began to no longer commit funds to plantation development. Since the 1990's, two State governments have sold plantations to private investors and public ownership is set to decrease further if the Queensland State Government is successful in their recent announcement to also sell their plantation estate.

In 1997, the Commonwealth State and Territory Governments along with the plantation industry set a target to treble the area of commercial tree crops to three million hectares by 2020. This national plantations strategy, otherwise known as 'Plantations for Australia: The 2020 Vision', aimed to 'enhance regional wealth creation and international competitiveness through a sustainable increase in Australia's plantation resources'[1], in other words, increase the wood supply security for domestic and export markets whilst also addressing Australia's trade imbalance in forest and forest products.

Since 1997, around AUD1.5 billion has been invested in plantation establishment and AUD1.01 billion in plantation-related processing infrastructure[2]. In addition, Australia's plantation estate increased from 1.1 million hectares to 1.97 million in 2008, with around 72,000 hectares of new plantation established in that year. The MIS industry was directly responsible for establishing about 81% of this plantation estate in all the major plantation regions of Australia[3].

As a result of this national strategy there has also been an increase in the percentage of native forest land reserved as more land becomes available for plantations. Currently, there is around 16 percent of the Australia's native forests in formal nature reserves, including around three quarters of all known old growth forests. This is up from 13 percent in 2000/2001[4].

[1] http://www.plantations2020.com.au/vision/index.html
[2] http://www.plantations2020.com.au/vision/index.html
[3] Department of Agriculture, Fisheries and Forestry (BRS) 'Australian Plantations 2009 Inventory Update'
[4] Department of Agriculture, Fisheries and Forestry (BRS) Website, http://adl.brs.gov.au/forestsaustralia/facts/conservation.html

The 2020 Vision was also introduced to address Australia's trade imbalance in forest and forest products. The value of export woodchips, $646 million in 1999/2000, accounted for over 40% of all Australia's forest products exports. At the same time, Australia imported around $2.7 billion of pulp and paper products annually. This trade imbalance, exporting low value woodchips and importing value-added pulp and paper, and the economic opportunities for value-adding has also led to various attempts to establish domestic pulp and paper mills[5].

The 2020 Vision has been successful in this goal as in 2007/2008 there was $1 billion worth of woodchips exported (remaining at 40% of all Australia's forest products exports of $2.5 billion) against a decrease in the total value of pulp and paper products imports ($2.2 billion)[6].

During the decade 1999 – 2009, the retail MIS industry facilitated private funding of plantation expansion. As a result, private ownership of plantations has increased from around 30 percent in 1990, to 46 percent in 1999[7] (when it was equal to public ownership) to 86 percent in 2008 (refer to Table 1 below)[8]. At the same time, Government ownership in 2008 dropped to 37 percent[9]. As noted above, this percentage will decrease further if the Queensland State Government is successful in their recent announcement to sell their plantation estate.

As mentioned, this changing trend in plantation ownership is largely as a result of the introduction of MIS and the lack of any other significant funding model for the expansion of the forestry plantation estate, given that it is a long term investment. It is currently estimated that MIS projects are responsible for up to 34 percent of Australia's total area of plantations, or 81 percent of all new plantations in 2008[10].

As referenced, it is estimated that 34%, or 670,000 hectares, of Australia's total plantation estate has been established via MIS schemes. A goal of the Plantations 2020 vision was to address Australia's trade imbalance in forest and forest products (currently over $2 billion) via the establishment and domestic processing of additional plantation resource.

To demonstrate the impact of the establishment and continued management in perpetuity of this additional 670,000 hectares on Australia's future trade balance the following generic analysis can be conducted. Assuming an average growth of the estate (MAI) of 20 cubic metres per year, then this established estate will provide for an additional 13.5 million cubic metres per year of domestic plantation resource in perpetuity, available for wood based processing industries.

On a conservative estimate of $150 revenue per cubic metre across all types of processing (chip, pulp, sawn timber, veneer, panels) this additional harvest as a result of MIS established resource will generate over $2 billion of income for Australian industry, having the capacity to bring the national trade account towards balance.

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5 IFA 'Woodchips from Australian Forests', 22 August 2002

6 ABARE 'Australian forest and wood products statistics, 13 May 2009 http://www.abare.gov.au/publications_html/afwps/afwps_09/afwps_may09.pdf

7 BRS 'Australia's Plantations 2006' http://www.planningplantations.com.au/assets/pdfs/inaustralia/maps/AustraliasPlantations2006.pdf

8 Department of Agriculture, Fisheries and Forestry (BRS) 'Australian Plantations 2009 Inventory Update'

9 Department of Agriculture, Fisheries and Forestry (BRS) 'Australian Plantations 2009 Inventory Update'

10 Department of Agriculture, Fisheries and Forestry (BRS) 'Australian Plantations 2009 Inventory Update'

It is clear that plantations established under MIS schemes have been, and will continue to play an important role in achieving government policy objectives in the agricultural and resource sector. It should be noted that, unless there is continued stimulus for capital injection in the sector, then this plantation estate will diminish in size over time and the above mentioned impacts will be one-off impacts rather than continue in perpetuity.

Table 1: New plantation areas by State and Territory, 2008 (hectares)

	Public		Private		Joint		Total	
	HW	SW	HW	SW	HW	SW	HW	SW
New South Wales	39	478	11 012	443	0	0	11 051	921
Northern Territory	0	0	3 610	0	0	0	3 610	0
Queensland	1 366	440	8 346	0	140	0	9 852	440
South Australia	128	0	3 325	0	0	0	3 453	0
Tasmania	2 325	0	14 981	1 967	694	0	18 000	1 967
Victoria	998	0	8 755	484	0	0	9 753	484
Western Australia	17	15	9 139	0	1 137	2 481	10 293	2 496
Sub-total	4 872	933	59 168	2 894	1 971	2 481	66 011	6 308
Total	**5 806**		**62 062**		**4 452**		**72 319**	
Proportion of Total	8%		86%		6%			

No new plantations were established in the Australian Capital Territory.

'Public' comprises plantations owned by governments; 'Private' comprises plantations owned by superannuation funds, timber industry companies, managed investment schemes and other private owners; 'Joint' comprises plantations owned jointly by public and private entities.

Therefore, MIS has become a critical instrument in the funding of both new and existing plantation estates within Australia, which otherwise would not have proceeded due to a number of factors, including the long term nature of such investments and the sell off of State government owned assets. It should be noted that there remains considerable interest in the ownership of mature forest estates and this is borne out by recent sales of existing estates to Timber Investment Management Organisations (TIMO's) such as GMO Resources and Hancocks.

GPL believes that the ATO Product Ruling system has been a development of great significance. ATO Product Rulings have resulted in significant benefits to government, to the administration of Australia's taxation system and to investors. The system of ATO Product Rulings has resulted in a greater consistency of offerings made by individual promoters in any one year. It has streamlined the product ruling administration process within the Australian Taxation Office. The system is far more administratively streamlined than ruling upon a significant number of individual private rulings or having to rely upon the outcome of QC's opinions (which was the process that pre-dated the ATO Product Ruling process). The ATO Product Ruling System also provides surety to investors in the agricultural MIS industry (on the proviso that the project is carried out in accordance with the Ruling) and is an efficient means of regulating the industry and controlling what products are released to the Australian public.

The negative impact of changes to the taxation treatment of investment in plantation forestry should not be under-estimated. The consequences in the past have proven to be quite significant. Good examples of this are:

- the impact on Timbercorp and Great Southern as a result of the non-forestry test case which ultimately found in favour of the existing taxation treatment of investors in non-forestry MIS,
- the impact of the sudden abolition of the 13 month pre-payment rule in FY2000 which resulted in a considerable reduction in investment in the industry. At the time, this was believed to be a major contributor to the bankruptcy of Australian Plantation Timbers (APT), a publically listed MIS company.

The point must therefore be made that without ongoing access to investment in forestry via managed investment schemes or an alternative taxation environment, the policy objective of Vision 2020 would be made impossible. Along with that would go Australia's desire to:

- reduce the trade imbalance in forest products which currently stands at approx $2 billion per annum,
- invest in value adding manufacturing industry such as rotary veneer, LVL, panels, sawmilling and pulp and paper.
- reduce reliance on Australia's native forest resource,
- provide capital and diversification of income to arrest decline in rural and regional Australia,
- provide resource security to Australia's forest industry based on a sustainable plantation resource, and
- reduce Australia's reliance on imported timber, some of which is from illegally logged sources.

Terms of Reference #3: Any conflicts of interest for the board members and other directors;

It is a requirement of all Directors of the Gunns' and GPL Boards, to properly disclose any potential conflicts of interests that they may have.

As a demonstration of their support of GPL's agricultural investment projects, some Directors do have interests in the projects and in accordance of Section 205G(1) of the Corporations Act 2001, the Directors of the Australian Stock Exchange are notified accordingly.

Regular reporting to the compliance committee and subsequent auditing of compliance plans have ensured that these interests are monitored and reported both internally and to the required regulatory bodies. It is important to note that these investments have been made on the same basis as any other investor in GPL's investment projects.

All directors have fiduciary duties and responsibilities to uphold as Directors under the Corporations Act which carries significant legal implications for errant behaviour. In our opinion, there is no difference between MIS company directors holding MIS scheme interests and company directors holding shares in the publicly listed entity for which they are directors.

Based on this rationale, Gunns and GPL do not believe that the holding of these interests generates a conflict of interest.

Terms of Reference #4: Commissions, fees and other remuneration paid to marketers, distributors, related entities and sellers of MIS to investors (including accountants and financial advisers);

It should be noted that the issue of “fee for service” versus “commissions” is an issue being addressed by the broader financial services sector.

Commissions paid to advisers or persons involved in distribution or promotion of interests in GPL Projects will be paid by GPL from its own funds and do not represent an extra amount to be paid by the Grower or from the Grower’s investment in the Project. GPL’s standard commission rate is 8% of the total Application Fee. However, in certain circumstances GPL may pay commissions up to a maximum of 10% of the Application Fee to a licensed adviser and may also pay trailing commissions. Critics of MIS have argued that the commissions are excessive but due to the long term nature of such investments it is believed that this rate is in line with the level of advice required .This is particularly evident when you compare the MIS commission rates to that of alternative financial products, such as managed funds/ superannuation, which offer both upfront and trailing commissions over the life of the investment.

As mentioned above, GPL has chosen to deal exclusively with financial advisers that are licensed to independent dealer groups. It is a requirement of the Corporations Act that all commissions are disclosed in the adviser’s Statement of Advice (SOAs) – a responsibility of the advisers.

It is important to note that the ‘Review of Non-Forestry Managed Investment Schemes (December 2008)’ also investigated the level of commission paid to advisers by MIS managers and the outcome of the findings was that ‘when considered across the life of the project, commissions from MIS were comparable to those of other financial products’.[11]

Terms of Reference #5: The accuracy of promotional material for MIS, particularly information relating to claimed benefits and returns (including carbon offsets);

Strict compliance regimes are in place to ensure that any promotional material is accurate at the time of publication.

In GPL’s case all promotional material is reviewed by its Compliance Manager to ensure that its content is accurate and fully compliant with legislation governing the publication of advertising material.

We also understand that ASIC conducts reviews of promotional and advertising material on a regular basis and ASIC has the powers to apply stop orders, injunctions and enforceable undertakings to promoters to amend defective or misleading advertising.

ASIC’s regulatory Guide 170 (formerly Policy Statement 170) provides that prospective financial information can only be provided if it is done so on a 'reasonable' basis and any provision of prospective financial information that is not done on a reasonable basis would be misleading. Due to the length of GPL's projects, ASIC would most likely view the provision of prospective

[11] Review of Non-Forestry Managed Investment Schemes, Report – December 2008

financial information relating to the performance of a project to be unreasonable due to the variable nature of market trends and growth rates / performance of crops over the long term life of the projects.

Due to the political risk and doubt surrounding the commercial aspects of investment in carbon sequestration, GPL has not ascribed any dollar ($) value to the carbon sequestered by Growers woodlots in an offer document since 2001.

The level of disclosure required for each project is substantial given the highly regulated nature of the industry. Compliance reporting, ASIC reviews and requests for further information relating to the Product Disclosure Statements (PDS) and Underlying Agreements, the need for Independent Expert Reports and Independent Research already places a significant requirement upon promoters of any managed investment scheme.

Information on the status of the project is then provided to the investor on an ongoing basis over the life of the project. This is in the form of newsletters, independent experts'/ annual market reports and client correspondence relating to harvest/ yield data.

Terms of Reference #6: The range of individuals and organisations involved with the schemes, including the holders of the relevant Australian Financial Services Licence;

The range of individuals and organisations involved in the development and management of the agricultural investment projects over the term of its investment life is quite extensive. Key classes of persons and organisations are listed below:

- Legal advisers
- Taxation advisers
- Auditors – taxation and compliance
- Independent Experts (in GPL's case, forestry, viticultural and horticultural)
- Independent Researchers
- Marketing Consultants
- Dealer groups and financial advisers
- Sales staff, administration staff and management
- Businesses establishing & maintaining the agricultural enterprise, ie. Site preparation contractors, weed control contractors, irrigation suppliers, nursery operators, pruning staff etc
- Harvesting (wine grapes, walnuts and plantation forestry) and cartage contractors
- Shipping, loading, processing, etc

Managed Investment Schemes (MIS) have long been identified as providing a strong injection of resources and capital into rural communities.

To demonstrate evidence of this, an annual audit conducted by the Plantation Division of Gunns Limited, as part of their Australian Forestry Standard (AFS) requirements, showed that as at June 2008, 588 contractors and their employees were employed in the Plantation Division of Gunns Limited alone (ie. planting, site preparation and maintenance activities) many of which were employed establishing plantations on behalf of investors in GPL's forestry investment projects. This is a significant amount of employment and does not include those employees or contractors involved in the harvesting, cartage or processing of the plantation resource.

Growers in GPL's plantation forestry investment projects currently invest over $2 million annually into the pruning of eucalypt plantation trees in order to produce high quality clearwood timber suitable for veneer production. This operation is highly labour intensive and adds considerable value to a portion of the forest plantation resource.

It was recently estimated that managing the entire 200,000 hectare plantation estate (half of which is MIS owned) under Gunns management control for solid timber, veneer and pulp would generate employment of 2,500 people and generate wealth of $1.05 billion annually if all aspects of the lifecycle of plantation management and the value adding chain was taken into account.

Terms of Reference #7: The level of consumer education and understanding of these schemes;

The level of information available to the prospective investor in an MIS is considerable.

Although it is the requirement of the promoter to provide this detail, it is up to the investor and adviser to ensure that the information is understood prior to an investment taking place.

As mentioned previously, GPL deals exclusively with external, independent financial advisers who in turn work for licenced dealer groups.

Examples of the types of information available to the potential investor are as follows:

- Product Disclosure Statement (PDS) and any supplementary PDS' – ASIC play a regulatory role in the disclosure required in these documents. The ATO must also view the final version before product release. It is then the responsibility of the investor to read the document in full.
- Statement of Advice (SOA) – prepared by financial advisers and signed by both the adviser and client. SOA's are regulated by the Corporations Act 2001 to offer protection to potential investors by providing them as much detail as they might reasonably require to make a decision about whether to act on the advice as a retail client, including, the advice and the basis for it, tax considerations, risks and information about remuneration, commission and other benefits to the adviser that may affect their decision to make the recommendation;
- ATO Product Ruling/s – contains important information for the prospective investor on the taxation treatment of their investment.
- Independent Expert Reports

- ie Independent Foresters, Independent Horticulturist and Independent Viticulturist, Independent Market Reports etc

- Research Reports – from Independent Research Houses
  - Most agricultural MIS offerings would have research reports from at least two of the three available research houses
  - Reports are quite substantial and contain significant detail of the project along with independent commentary from the Researcher
- General marketing information, such as Project Profiles and summaries, FAQs.

This information can be requested through the financial adviser or the promoter. In addition, most MIS promoters would maintain a comprehensive web-site with much of this information accessible to potential investors.

In addition, to that above;

- Advisers must be adequately trained to be issued with an authorised representative licence from an AFSL holder, and
- Some dealer groups require advisers to pass accreditation before recommending a particular product.

Terms of Reference #8: The performance of the schemes;

Due to the long lead time characteristic of these agricultural projects, and given that GPL's first investment project was only offered in 2000, there have only been returns due in four GPL projects to date. They are Woodlot Project 2000, Woodlot Project 2001, Winegrape Project 2004 and Winegrape Project 2005:

(a) GPL Woodlot Projects

Thinning operations have commenced in the plantations comprising both **Woodlot Project 2000** and **Woodlot Project 2001**, delivering commercial returns to Growers in both of these projects.

The returns being delivered are ahead of schedule and greater than Prospectus' forecasts.

It should be noted that the estimated growth rates of these types of plantations cannot generally be determined accurately under seven (7) years of age. The growth rates of the plantations are determined by a measured inventory of each plantation.

Our next project to be measured will be our Woodlot Project 2002 which was planted in 2002/2003.

A major factor in the performance of our woodlot projects is that all forestry plantations are restricted to well established forestry species grown only in proven, high rainfall regions, located within close proximity to existing markets and processing plants. Recent developments in silvicultural practices, such as weed management, site preparation, tree breeding and nutrition levels have all aided in this performance.

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(b) Winegrape Projects

To date, Winegrape Project 2004, Winegrape Project 2005, Winegrape Project 2005 (Supplementary Release) and Winegrape Project 2007 vineyards have all experienced a commercial harvest.

In 2007, Growers in Gunns Plantations' **Winegrape Project 2004** achieved yields of 3.2 tonnes per hectare, at age 3, which was one year ahead of schedule. The 2008 season yielded 10.7 tonnes per hectare – 21% greater than originally forecast. Gunns Plantations was able to achieve an average price in excess of $2,000/tonne for all of the Growers' grapes for this season (2008).

In 2009, cool conditions experienced during the flowering season resulted in poor fruit set and lower than forecast yields for this vintage. This was particularly felt by investors in both **Winegrape Project 2004** and **Winegrape Project 2005**, whose yields were reduced by 44% and 56% (upon the previous year) respectively as a result of the unseasonal weather conditions. An average selling of over $2,000/tonne was still achieved for both Projects. **Winegrape Project 2005 (Supplementary Release)** and **Winegrape Project 2007** also had their yields substantially cut from the forecast figures as a result of the cool conditions, this resulted in minimal impact to investors as project structure was such that the Gross Proceeds Entitlements were retained by GPL in lieu of Growers maintenance and harvests fees in this year.

All grapes have been sold to Tamar Ridge Estates, Tasmania's largest cool-climate wine producer, as part of an off-take agreement.

Terms of Reference #9: The factors underlying the recent scheme collapses;

As referred to in T/R #1, it is the belief of GPL that the recent collapses of the two MIS companies related to external factors such as the commercial and political uncertainty created by the agricultural MIS test case, the impact of the global financial crisis, as well as the specific business models adopted by these organisations, as opposed to the MIS investment model itself.

Terms of Reference #10: The projected returns and supporting information, including assumptions on product price and demand;

Information relating to projected returns and the associated supporting information is documented in the PDS. All details relating to price and demand are supported by an independent third party, or "Independent Experts".

It should be noted that ASIC Regulatory Guide 170 (formerly Policy Statement 170) provides that prospective financial information can only be provided if it is done so on a 'reasonable' basis and any provision of prospective financial information that is not done on a reasonable basis would be misleading. Due to the length of GPL's projects, ASIC would most likely view the provision of prospective financial information relating to the performance of a project to be unreasonable due to the variable nature of market trends and growth rates / performance of crops over the long term life of the projects.

There are a large number of variables that GPL takes into consideration when determining the projected yields and prices on a proposed forestry investment project. The yield data in GPL's Product Disclosure Statements are based on available growth rate information from pre-existing plantations. This is aided by GPL's policy of only offering investment in established plantation growing regions such as Tasmania and the Tumut/Tumbarumba region. The pricing information is based on current market stumpage prices for wood taking into account the type, quantity, quality and proposed end purpose of the wood.

Any commentary relating to demand is based upon Gunns' long and established relationship with its domestic and international customers and supported by information from the Independent Expert. Consequently, this relationship has helped the business to make assumptions on projected changes in the supply and demand of their wood products.

Terms of Reference #11: The impact of MIS on other related markets; and

The introduction of MIS has seen many substantial benefits to the rural economy, such as:

Benefits to private landholders

Since its inception, Gunns Plantations Limited (GPL) has leased around 35,000 hectares of land from private landholders in Tasmania with the leases having a value of $7.3 million per annum (COB FY 2009)[12]. This has been of immense benefit to many landowners as it has provided the option for many to stay on the land by providing an increase in farm profitability and financial security as a result of income diversification and a reduction in the variability of income levels.

This is demonstrated by the change in farming practices of a farmer (name withheld) from the north east of Tasmania. This particular farmer has been farming on his property since 1968 and over the past ten years has leased out a part of his farming land to MIS companies to establish plantations. He claims this diversification strategy, of combining traditional farming methods with plantation leasing, has increased income enough to now support two families on the farm as he believes that the plantation return is 6-8 times greater than the former grazing enterprise.

To achieve this outcome, he invested the extra cash received from leasing the land into fertiliser and fencing. The farmer was then able to run the same amount of stock but on a smaller amount of land, hence increasing the efficiency of the grazing land and overall business return.

Other flow on benefits from leasing land to plantations include; (i) *regularity* of income irrespective of seasons and markets (a luxury most farmers without off farm income do not experience), (ii) the potential establishment/upgrade of access roads on and around the farm, and (iii) the implementation of fire control methods.

Alternatively, another option to leasing has been to sell the land to MIS companies. This decision has provided landholders (usually farmers) with the opportunity to exit from the land, particularly in the absence of a suitable succession plan for the farm or in the absence of an

[12] GPL, 12 June 2009

ability to amalgamate farming enterprises to create the necessary efficiencies of scale. It should be noted that many small farms are simply no longer viable as farming enterprises.

Benefits to rural and regional Australia, particularly social benefits

As mentioned previously in the response to T/R #6, an annual audit conducted by the Plantation Division of Gunns Limited showed that as at June 2008, 588 contractors and their employees were employed in the Plantation Division of Gunns Limited alone (ie. planting, site preparation and maintenance activities) working predominantly on MIS related plantations. This does not include those employees or contractors involved in the harvesting, cartage or processing of the plantation resource. These contractors own and operate machinery worth $35 million when working for Gunns.

The development of MIS in non forestry sector has also seen the emergence of new industries within the agricultural landscape, such as that of the walnut and almond industries.

In December 2008, the Federal Government's Treasury paper, titled 'Review of Non-Forestry Managed Investment Schemes' stated that due to improved economies of scale and the substantial amount of resources attached to MIS projects (as discussed above), that this form of land use is more efficient that traditional farming practices. The paper maintained that this efficiency has resulted in benefits to the overall economic welfare of the rural community as it 'frees up resources for other uses and allows the producer to supply greater quantities of goods at lower prices, which benefits consumers'. It also allows agricultural firms to participate in international trade, which can be seen by GPL's Walnut Projects in Griffith, NSW. Due to the large volume of walnuts to be harvested from the projects, the international market (particularly that of the northern hemisphere) will be a viable option for the end product, thus resulting in benefits to Australian, both economically and socially.

Benefits to the environment

The Gunns group is very proud of its strong environmental achievements.

All of its operations are managed to a high environmental standard. For example, with respect to its viticultural operations (including Grower's winegrape investments in GPL), Gunns is working with a number of external parties to protect and enhance Moulting Lagoon – a natural waterway which has been identified as a wetland of international importance. Moulting Lagoon adjoins Grower's vineyards at Coombend on the east coast of Tasmania.

At Tamar Ridge Estates all winery waste water is fully recycled. This has been able to be achieved through the construction of a new wetland habitat which all waste water is diverted through.
The Gunns' group has a vested interest in the sustainable, long term management of forests in Australia and in undertaking its plantation development operations, strict codes of practice must be adhered to. These codes of practice (for example the Tasmanian Forest Practices Code) govern issues such as the protection and conservation of natural and cultural values (soil and water, geomorphology, visual landscape, botany, zoology and cultural heritage).

As a part of Gunns' commitment to best practice environmental management it has undertaken the following commitments:

- Australian Forestry Standard Certification

Gunns' forest operations in Tasmania have been certified to the Australian Forestry Standard (AFS) since November 2003 and in 2006 was re-certified for a further three years after a full reassessment was completed. This re-certification confirms Gunns' position as a leader in Australian forest management practices from an environmental, economic and social perspective. The Australian Forestry Standard is, in turn, mutually recognised by the world's largest forest management certification scheme, the Programme for the Endorsement of Forest Certification (PEFC). Gunns was in fact the first Australian forest products company to have its forest management practices certified to an internationally recognised standard. All of GPL's Tasmanian based plantations are certified to the AFS and its New South Wales' plantations are in the process of being certified. As part of Gunns commitment to the Australian Forestry Standard and its aim to meet world's best practice measures, early in 2007 it committed to cease the broad scale conversion of native forest to plantation and hence any new plantations are now developed on previously cleared agricultural land.

- Chain of Custody

The Chain of Custody standard complements the AFS and applies to all of Gunns' forest operations in Tasmania (including those plantations in Tasmania owned by Growers in GPL's forestry investment projects). The Chain of Custody system is an inventory control system that tracks the origin of forest produce in order to verify that it has been derived from AFS certified sources.

- Environmental Management System – ISO 14001

Gunns' operates an Environmental Management System (EMS) that is certified to the international standard ISO 14001. This incorporates all of Gunns' forest operations including those of Growers in GPL's investment projects.

These commitments result in a significant amount of land within the sustainably managed plantation estate being managed for conservation purposes alone. For example in addition to the 200,000 hectare plantation estate that Gunns manages (including those of Growers in GPL's investment projects), Gunns manages in excess of 45,000 hectares of conservation reserves. This equates to approximately 21,000 football stadiums that Gunns' manages purely for conservation purposes for a range of flora, fauna, social, landscape, cultural heritage, geomorphologic and soil and water values.

- CO_2 sequestration

It has long been recognised that a secondary benefit to the establishment of plantations is the ability of the plantation estate to work as a carbon 'sink' for greenhouse gases. Plantations, especially those returning a strong yield, have the capability to sequester greater amounts of CO_2 than most other forms of land uses, ie. traditional farming, livestock grazing and even native forests. In addition, not only does the plantation resource increase stores of carbon but the wood produced can then displace other products which have greater emissions associated with their production. For example, tubular steel and concrete poles generate on average 38 and 17 tonnes of emissions respectively, as opposed to a timber pole from a renewable plantation source which would be carbon neutral[13].

To further support this argument, in 2008 the Gunns Limited Somerset Nursery in northern Tasmania dispatched its 100 millionth seedling since being built in 1997. This represents over 60,000 hectares worth of plantations, or the equivalent to the sequestration of 36 million CO2 equivalents which is enough to offset the emissions generated by 60,000 Australians over a period of 21 years[14].

The carbon sequestered by the 200,000 ha plantation estate that Gunns manages each year:		
Operating a car	**Running an average household**	**Australian emissions per person**
952,500 cars	**345,100**	**166,500**

- The average Australian car emits about five tonnes of CO^2 equivalents per year.
- The average household emits 13.8 tonnes of CO^2 equivalents per year.
- On average Australian emits about 28.6 tonnes of CO^2 equivalents per person per year.

Well designed plantations can also improve other agricultural aspects of the land, such as soil salinity, farm shelter, biodiversity and improved catchment health[15].

Responses to critics of MIS

- **Prime agricultural land**

There are many MIS opponents who claim that the industry is responsible for a substantial reallocation of high quality farming land from traditional farming uses to plantation estates and that this shift is detrimental to not only farming communities but the rural economy as a whole.

The information available from Tasmania demonstrates that this is not the case. A recent study showed that as at December 2006, only 3.5 percent of the total plantation estate in Tasmania had occurred as a result of being transferred from Class 1-3 agricultural land (prime agricultural land) to private plantation. Only 1.2 percent of all plantations established from 2002 to 2006 have been established on prime agricultural land in Tasmania. The fact is that this land is typically too expensive (and productive for traditional farming pursuits) for plantation forestry to be a viable option.

The reallocation of prime agricultural land (defined in Tasmania as 'Class 1-3') to private plantation is therefore not significant. [16] It has subsequently been further negated by the

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13 DPIE, Plantations and Greenhouse FAQs
14 GPL 2008 Winter Newsletter
15 DPIE, Plantations and Greenhouse FAQs

16 DIER 'Private property plantations in the landscape in Tasmania as at 31 December 2006'.

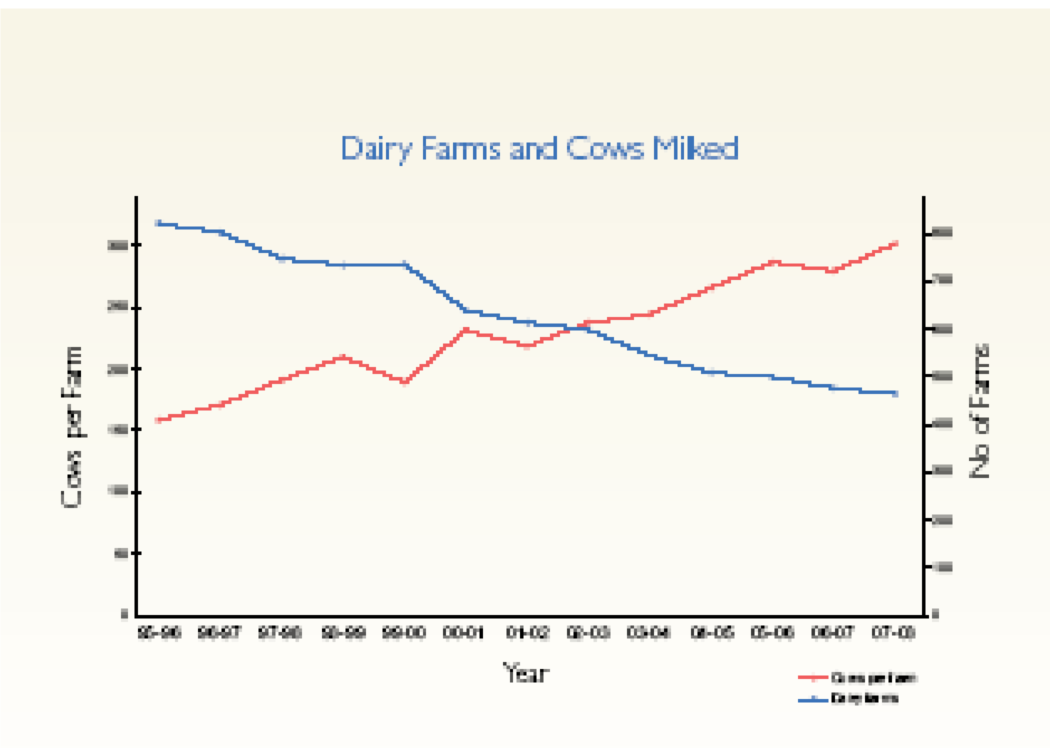
introduction of yet more legislation to protect prime agricultural land (Tasmania's State Policy on the Protection of Agricultural Land).

- Impact on traditional agriculture

As mentioned earlier, traditional farming land has been acquired by agricultural investment companies, particularly for plantation forestry. This has enabled significant restructuring of the traditional farming sector (it has presented landowners with the opportunity to exit from the land, particularly in the absence of a suitable succession plan for the farm or in the absence of an ability to amalgamate farming enterprises to create the necessary efficiencies of scale) and this has occurred at the same time as significant gains in land use efficiency has been made by the traditional farming sector.

The dairy industry in Tasmania is a great example of this where for many years the Tasmanian Dairy industry has been characterised by a declining number of farms, increasing average herd size, increased total milk production and increasing production per farm. Over the last decade Tasmanian milk production has grown at a compound rate of 2% per year by volume and 4% per year by value. Milk production per farm has increased because of rapid uptake of new technology (such as rotary dairies and centre pivot irrigation), the use of more purchased inputs (such as nitrogen fertiliser and grain feeding) and larger farms. [17]

This is highlighted in the graph below.



Source: Dairy Australia, Australian dairy In Focus 2008

[17] The Tasmanian Dairy Industry – DPIW – January 2009

There has been a similar trend in cropping production becoming more efficient and moving away from the traditional smaller farms on red kraznozem soils to larger, more efficient production systems in the northern midlands (for example) which are managed under larger, efficient, irrigation systems.

The introduction of MIS plantations on traditional farming land and the efficiencies that have resulted from the implementation of large scale commercial agricultural development, has led to an increase in the state's total gross value of agricultural production from $641 million (in 1996/1997 with the introduction of '2020 Vision') [18] to $963 million (2006/2007) [19]

Terms of Reference #12: The need for any legislative or regulatory change.

As mentioned previously, the level of disclosure required, and the regulation governing, each project is substantial. Compliance reporting, ASIC reviews and requests for further information relating to the Product Disclosure Statements (PDS) and Underlying Agreements, the need for Independent Expert Reports and Independent Research already places a significant requirement upon promoters of any managed investment scheme.

Information on the status of the project is then provided to the investor on an ongoing basis over the life of the project. This is in the form of newsletters, independent experts'/ annual market reports and client correspondence relating to harvest/ yield data.

In addition, as the publically listed parent company of GPL, Gunns Limited is already subject to significant disclosure requirements.

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[18] DIER Website, http://www.dier.tas.gov.au/__data/assets/pdf_file/0009/6975/Appendices_5.pdf

[19] ABS Website, http://www.abs.gov.au/AUSSTATS/abs@.nsf/Latestproducts/25EF81E53FF5C99FCA2574F1000E9D13?opendocument.