QSL Update week ending 11.04.14
By CEO Greg Beashel

Wilmar's announcement that it intends to break away from the export sugar industry's current collaborative approach through Queensland Sugar Limited (QSL) is disappointing and has major ramifications for the industry.

At QSL, we have a duty to serve the interest of growers and millers for the long-term prosperity of the Queensland sugar industry. It is clear to us that there is a much better solution than Wilmar's proposal where all sugar is managed through a single system allowing the benefits of economies of scale to be enjoyed by all industry participants. We hope that the industry can collaboratively work together to find the best sustainable model for the future of the Queensland sugar industry. As part of any discussion, we feel that there are some important facts that need to be considered.

Firstly, it is worth noting that the majority of cane farmers work in an environment where there is a single buyer for their sugar cane; the local mill. Sugar cane is bulky, expensive to transport and a highly perishable product. ***In no other Australian farm product do the majority of farmers face this natural monopoly.***

Wilmar's intentions to break away from the industry's collaborative arrangements has ramifications across many of the activities that QSL performs. QSL, as a member-owned business, currently performs these activities on a not-for-profit basis and passes the value that it creates back to its milling and grower members, primarily through its sugar pool returns, in a transparent manner. ***It is a stable business model that is the envy of other agriculture industries***. Taking each of the four main activities associated with marketing in turn:

Finance: QSL takes title to Australia's export raw sugar when it is delivered to port storage facilities. Ownership and size of the raw sugar inventory makes it an attractive financing proposition and QSL is able to raise funds at low cost. These funds are advanced to mills and growers providing working capital to prepare for and grow the next season's crop. A reduction in tonnage would increase finance costs.

Pricing options: QSL runs a range of pricing options to assist the industry to manage sugar price and foreign exchange risk. Breaking up the industry's collaborative arrangements would increase the cost and reduce the choice of pricing pools available to smaller mills and to growers.

Quality and Logistics: QSL manages all bulk sugar terminals in Queensland, which provide significant flexibility to overcome logistical and quality issues in individual ports. ***By pooling all of Australia's export sugar and having the ability to load ships from different terminals, the industry has greater flexibility in meeting customer orders in-full and on-time.*** For example when Cyclone Yasi damaged the Lucinda port and when the Bundaberg port was closed by floods, orders could be met in-full and on-time by diverting ships to other terminals. A reduction in QSL's tonnage limits this logistical flexibility.

Selling sugar: Wilmar are a significant global trader, owning sugar mills and refineries around the world. This allows them to trade with a different approach and business risk appetite and provides an ability to leverage their global business. QSL's position as the largest sugar exporter from Australia combined with its traditional risk management approach, provides

confidence and security in relation to returns to members. This return will be diluted by a loss of tonnage.

In conclusion, there is a lot to consider and before extreme actions are taken, I urge Wilmar to reconsider their intentions to break away from a system that has been set-up by the industry for the industry.

If you have any questions please don't hesitate to contact our Industry Relationship Managers Carla Keith (0409 372 305 or Carla.Keith@qsl.com.au) or Cathy Kelly (0409 285 074 or Cathy.Kelly@qsl.com.au).