Chairman's Address - 2014 Queensland Sugar Limited (QSL) Annual General Meeting

Delivered by Mike Carroll, 20 October 2014

When I was approached to join this board, Alf Cristado and Ian Glasson assured me it would be pretty plain sailing. How wrong they were – right now, we are in the midst of the most significant developments in sugar marketing since the industry was deregulated in 2006.

Over the years and certainly during my time on the Board, we have worked hard to find a balance between our members' often different interests. We've sought outcomes that would benefit the whole of the industry whilst ensuring no individual member – grower or miller – is worse off. In economic parlance we've sought to grow the pie without changing how it is portioned.

Only last year, we got the industry to agree to millers being able to market their economic interest. Unfortunately – even before this came into effect – Wilmar Sugar Trading decided it wasn't enough. In apparent disregard for their growers' preference and the overall interests of the industry, they want complete control of all of the sugar that passes through their mills. As we're all aware, Wilmar proposed a 'joint marketing company' and although this was rejected by their growers, they gave formal notice to QSL in May. Almost immediately, we felt the ramifications, with $1 million of additional financing costs imposed on our members, including growers and the smaller mills. Somewhat opportunistically Mitr Phol and COFCO soon followed.

Mackay, Bundaberg and Isis have rolled over their supply agreement for the 2017 season, and we've commenced discussions with them on what QSL should look like beyond 2017. Traditionally, QSL has not been outspoken about industry developments as we are a company owned by both millers and growers and our purpose is to serve the interests of both. Indeed, we have worked hard to balance these often-conflicting interests. However, when we believe that something jeopardises the long-term prosperity of the Queensland sugar industry or potentially disadvantages a substantial part of our membership, we feel a duty to speak out.

The reality is that cane farmers and millers cannot succeed without each other. Mills have a natural monopoly over 90 per cent of the cane and where it is crushed – given known technology there is no escaping this. Cane is very different to other agricultural products and markets.

Australia is a country that fosters and encourages competitive markets. Over the last few decades we have worked hard to deregulate them, and not without considerable pain and adjustment. This has been underpinned by a belief that markets are better at developing solutions, setting prices and managing supply and demand than Government and industry regulation.

So the purpose of deregulation has been to dismantle artificial monopolies. The purpose of deregulation was not to allow private monopolies to replace statutory monopolies. Indeed, when State-owned monopolies have been privatised, they invariably have had controls put in place to ensure competitive arrangements exist.

Growers have told us that they support the QSL model, as it has drawn a line between cane milling and raw sugar marketing. With QSL, the marketing, pricing and funding of the sugar that growers are economically exposed to has been done by a company they have 50 per cent ownership and control of.

We are now faced with a situation where three milling companies are using their cane milling monopolies to force growers to use them to also market and price their raw sugar exposure. Growers have been very clear that they have major concerns about potential conflicts of interest and transparency in Wilmar's proposed model. And it remains unclear how Mitr Phol and COFCO will price their grower's economic exposure to sugar. What these three milling companies are doing has parallels to employees and their superannuation. It is akin to saying that because I'm paying your contributions, you must use my Superannuation fund. As we know, super choice legislation was introduced almost a decade ago which gives employees the right to choose where they will invest their superannuation.

At QSL, we believe the best outcome is not to revert to the past but to progress to the introduction of a competitive arrangement where growers can choose who markets their economic exposure. This would provide competition, allow markets to appropriate value along the supply chain, mitigate risk, encourage innovation and deliver the fairest outcome for all. So QSL welcomes the Queensland Government, the Federal Senate and the ACCC's investigations.

Let me be clear, QSL is not advocating a return to a single-desk. What is required is modern legislation that opens the marketing, pricing and funding of raw sugar to competition. QSL welcomes having to evolve into an organisation that has to compete for the right to market growers' economic interest in sugar. If Wilmar Sugar Trading, Mitr Phol and COFCO believe they have a better proposition for growers, then they too should welcome a competitive environment.

There is a lot at stake here. Only with a real say in their future will growers have the confidence to continue to invest in this industry, in which they have over $12 billion of capital invested, and which each year generates around $1.5 billion of export revenue.

Notwithstanding our different positions, I do want to emphasise that over the next three years of the RSSA, QSL remains committed to serving the best interests of all participants. We are absolutely committed to maintaining professional relationships and the highest service levels to all parties. This means retaining our talent and continuing to provide and further develop a range of services and pricing options. All this with a focus on efficiency, low cost and transparency. Indeed I'd be remiss in not acknowledging the professionalism and dedication that Greg and his team have displayed in the midst of these developments.

Concurrent with maintaining service levels for all RSSA participants over the next three years, we are also very strongly focused on strengthening the organisation to face the future post-2017 in any scenario that emerges.

Moving on to other matters, there have been a few important people changes that I would like to acknowledge.

- Firstly, we welcomed Chris Leon as a Non-Executive Director in February this year.

In our Leadership Team, we welcomed:

- Susan Campbell into the role of Company Secretary and Legal Counsel in October 2013;
- Joanne Nugent into the role of General Manager Human Resources in May 2014; and
- Dougall Lodge to the newly-created role of General Manager Trading and Risk to oversee the combined team of Treasury and Sales and Marketing. This role was created to bring physical sales and pool pricing together and to have the Finance team provide more independent oversight.

Finally, I would like to present to you the QSL Annual Report for the 2013/14 Financial Year. Included in this report is analysis of last year's results and performance trends over the last five years which Greg will shortly take you through. All of QSL's results are open to members so you can transparently review and assess our performance.

As a not-for-profit, tax-free "pass through" organisation owned by our members, all revenues are returned to our members. Our driving force is and always will be to obtain the best returns for you.