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The Committee Secretary
Senate Standing Committees on Rural and Regional Affairs and Transport
PO Box 6100
Parliament House
CANBERRA ACT 2600

Dear Committee Secretary,

RE: Inquiry into the current and future arrangements for marketing of Australian sugar.

Thank you for the opportunity to provide a submission to the Committee to assist with its inquiry into current and future arrangements for the marketing of Australian sugar. The Isis Central Sugar Mill Company Limited (ICSM) is one of three sugar milling companies that has remained in the Raw Sugar Supply Agreement (RSSA) with Queensland Sugar Limited (QSL) for the 2017 season.

ICSM is an unlisted public company with a proud 120 year history in the Australian sugar industry. The company is owned by the approximately 230 growers that supply sugarcane to the mill. ICSM operates a raw sugar mill near Childers that has crushed in excess of 1.5mt of sugarcane in the 2012 season. In addition the company operates a cane railway network with over 150km of mainline and runs a substantial sugarcane farming business producing approximately 150,000 tonnes per annum.

The company has 200 employees and is a significant contributor to the economy in the local regional area.

a. The impact of proposed changes on the local sugar industry, including the effect on grower economic interest sugar.

The impact of the withdrawal from the voluntary sugar marketing agreement with QSL, the RSSA, of three milling companies with approx. 80% of the current volume, post 2016, will have a significant impact on the operation of QSL post the 2016 season. It is difficult to assess the impact on ICSM of this future change as it represents both potential future risks and opportunities. A restructured QSL will lose some scale advantages with the greatly reduced volume which will increase the cost/tonne of the sugar marketed by QSL. Other potential risks for ICSM include the pursuit of commercial interests of remaining sugar milling companies in the RSSA, including

involvement in domestic sugar marketing, and the increased concentration of influence/voting rights with one milling company supplying the vast bulk of the tonnage. There would likely be opportunities to have QSL more flexible and focussed on the needs of the remaining milling companies and their growers.

Grower Economic Interest is a term that is used in the RSSA to identify the quantity of sugar to which growers have price risk exposure. It does not confer any legal title or ownership rights of the sugar to growers and ownership of sugar produced unambiguously resides with milling company that produces the sugar.

ICSM use a similar term and concept to Grower Economic Interest to calculate the approximate quantity of raw sugar that growers are permitted to nominate for sugar pricing purposes in future seasons. In addition, it is also used for the calculation of the sugar price to be used in the cane price formula in relation to payment to the grower for the supply of sugarcane in a season.

Providing the cane payment formula continues to include the variable of the sugar price, there is likely to be little impact on the proposed changes for growers. This is because the vast majority of the sugar price (greater than 90%) can be hedged on behalf of growers and is market driven and transparent to all stakeholders with the variables being the ICE No 11 futures contract and the USD/AUD exchange rate.

The remaining sugar price components do not have the same degree of transparency to stakeholders. In terms of the impact of the proposed changes on these components, the Canegrowers Green Pool report of 5th September 2013 noted (p14) there 'would be little noticeable impact on premiums' when considering whether additional sellers into the Asian market would negatively impact the premiums to growers as achieved by QSL. Whilst there is likely to be little impact on premiums, there is a continuing need for some transparency or verification, via third party auditing, to provide confidence in the validity of these sugar price components, and such arrangements are currently in place for ICSM growers as well as more generally across the industry.

b. Equitable access to essential infrastructure

The primary essential infrastructure in relation to sugar marketing is the bulk sugar terminals for sugar storage and ship loading. For ICSM this relates to the Bundaberg Sugar Terminal that is owned by Sugar Terminals Limited (STL) and leased to QSL. This terminal is utilised by three milling companies and is a monopoly asset that is essential for the viable operation of the local sugar industry. STL is owned by the industry via G-Class and M-Class shares and regardless of any future ownership change for this terminal, it is essential that open access is maintained to this monopoly asset at no greater a cost burden than is currently the case under the QSL lease arrangements.

Such a requirement is consistent with the Commonwealth Government Foreign Investment Review decision of 8/11/10 (Undertakings by Wilmar International Imposed as Approval Conditions Under the Foreign Acquisitions and Takeovers Act 1975) condition that if Wilmar "seek to operate STL's sugar terminal infrastructure, either through a lease, direct ownership or other means, then Wilmar will provide the same open access arrangements to STL's sugar terminal infrastructure that are currently provided to QSL."

c. Foreign ownership levels in the industry and the potential to impact on the interests of the Australian sugar industry.

ICSM does not view the ownership of milling companies (whether foreign or domestic) as a significant issue in relation to sugar marketing. ICSM has been competing for cane supply since deregulation with a larger foreign owned milling company which has access to a larger balance sheet which has made competing more difficult for ICSM. This is particularly the case in the targeted acquisition of cane farms supplying ICSM, which has reduced cane supply volume to ICSM to the detriment of our grower suppliers and shareholders. However, ICSM is satisfied that the national interest is served by the current Foreign Investment Review Board approval processes in relation to ownership changes.

d. Whether there is an emerging need for formal powers under Commonwealth competition and consumer laws, in particular, whether there are adequate protections for grower producers against market imbalances.

There is an economic driving force that naturally limits the extent of any market imbalances between grower producers and milling companies. Both are dependent upon each other for their financial prosperity and it is this co-dependency that ensures milling companies are incentivised to ensure that cane supply to their mill is maximised. This requires grower producers to be financially sustainable from sugarcane returns and for grower producers to elect to produce sugarcane rather than competing alternatives. In the supply area for ICSM's mill, grower producers have many alternative options including numerous vegetable and tree crops. In addition, grower producers may elect to supply sugarcane to a competing sugar milling company and there is intense competition for sugarcane supply. ICSM, on the other hand, has no flexibility as the equipment employed is specialised for the application of sugar cane processing and the large capital investment involved becomes uneconomic as the volume of throughput diminishes.

The competition and consumer laws provide appropriate protection for market participants and the authorisation of collective bargaining for grower producers to negotiate cane supply agreements under the Sugar Industry Act 1999 provides adequate protection for grower producers in such negotiations. There is no market failure requiring redress by further regulation.

e. Any related matters

ICSM is a member of the Australian Sugar Milling Council (ASMC) and supports the contents of the ASMC submission to this Inquiry.

Yours faithfully

J. Gorringe
CHIEF EXECUTIVE OFFICER