Appendix D: Wilmar response to key themes raised by Committee members

Several themes regarding the proposed model for sugar marketing post-2017 were evident in the lines of questioning by the Committee. Below are Wilmar's written responses to these themes, in addition to the submission and supplementary submission to the Committee, opening statement and responses to questions at the hearing held in Townsville.

Wilmar firmly believes the Queensland cane growers that supply its mills need a better return for their cane. The primary reason for Wilmar seeking to market 100 per cent of its sugar is to deliver better returns to both Wilmar and growers, by leveraging our skills and network as a leading global sugar trader.

Theme	Wilmar's commitments
Wilmar's commitment to engaging in commercial negotiations	Wilmar wrote to collectives in November 2014 inviting them to participate in an independently facilitated engagement program to negotiate a future model for pricing and marketing arrangements. This and seven subsequent letters to Canegrowers collectives demonstrate Wilmar's effort to meet with collectives, confirming: • The meeting agenda is open and grower collectives are welcome to table alternative marketing models including a 'grower choice' model; • An independent facilitator agreed by all parties will ensure discussions are open and constructive; • Representatives from the Queensland and Commonwealth agriculture departments will be invited to observe meetings; • Any discussions are without prejudice to outcomes of the current industry reviews being conducted by government. In Wilmar's letter to Canegrowers dated 5 December 2014, Wilmar stated "It is not our intention to seek to limit the scope of what Canegrowers wishes to discuss and nothing in the proposed agenda prevents a 'grower choice' model forming the basis of Canegrowers feedback and discussion at the initial or subsequent meetings."
Concerns over details of Wilmar's proposed models	Wilmar made the announcement of its decision to exit the voluntary agreement with QSL in April 2014, and at that time proposed a marketing model based on establishing an independent marketing company jointly controlled by both growers and Wilmar. Under this model, the duration of cane supply agreements remained unchanged from the current convention of three year terms. Wilmar proposed to supply all its sugar production to the joint marketing company for a period of 15 years to provide the joint marketing company with certainty and stability of future sugar supply. In December 2014 Wilmar also put forward an alternative pricing and marketing model which facilitated continued forward pricing for growers, and developed a suite of detailed legal agreements for collectives' review and feedback. Both models give life to the ten key principles to which Wilmar has committed. The Burdekin District Cane Growers collective and the Canegrowers' Proserpine collective received the draft agreements in December 2014, but have not yet provided feedback on the proposed model or the agreements. The intent of providing draft agreements to grower collectives is to provide a starting point for negotiations. Wilmar is committed to

	commercial negotiations and would like the opportunity to discuss the Wilmar proposals and any proposals provided by grower collectives.
Timeline to negotiate new agreements	Agreements that reflect the final marketing model negotiated and agreed between Wilmar and grower collectives, need to be in place before June 2017 for Wilmar sugar mills to be able to accept and crush cane in the 2017 season, under the *Sugar Industry Act 1999* (Qld). However this would not provide growers with certainty or the ability to forward price their cane in the interim. Accordingly, Wilmar has been seeking to meet with grower collectives since November 2014 to enter into an independently facilitated engagement process to discuss and negotiate an agreed future marketing model as soon as possible, to provide certainty to all parties.
Termination of CSAs	Cane supply agreements for the 2017 season need to be amended to reflect the model for raw sugar marketing beyond 2017 that is negotiated with grower collectives.. As part of this process, it was a procedural requirement for Wilmar to provide advice to grower collectives that the current agreements would conclude at the end of the 2016 season as otherwise; these agreements would have automatically rolled over for another three year period. It is Wilmar's intention to work with grower collectives to develop a commercially agreed marketing arrangement that delivers better returns into the pockets of cane growers.
100% of Marketing premiums will be returned to growers and growers will also have the opportunity to share in arbitrage returns (which are a new revenue stream and not currently provided by QSL)	Wilmar has committed to return 100% per cent of the net marketing premiums to growers on a dollar per tonne basis. So a grower will receive cane payment based on the outcome of their forward pricing and pooling decisions, (i.e. the relevant ICE#11 price), plus the net marketing premium. The basis for determining these elements of sugar price that is used to determine grower cane price will remain unchanged from current practice under the QSL system. Wilmar's proposal will also allow growers to share in any arbitrage premiums achieved by Wilmar when the synergy of the Australian 'book' of sugar and Wilmar's non-Australian 'book' of sugar can be used to improve returns. Such arbitrage returns are supplementary to the ICE#11 and the net marketing premium elements of sugar price. The arbitrage premiums therefore provide growers with access to a new revenue stream, over and above the elements that currently determine the price they receive for their cane under the QSL system. Wilmar has tabled a proposal to share the arbitrage premiums and would like the opportunity to engage in commercial discussions with grower collectives to seek their feedback on this new potential revenue stream. This is a prime example of how Wilmar can deliver additional value to growers from its global trading operations and an issue that can and should be discussed and commercially negotiated between parties.
Maintaining the Cane Price Formula	Wilmar is not seeking to change the cane price formula. Wilmar has provided a written commitment to the Senate Committee of its preference to maintain the long-standing cane price formula. The sugar industry has a pricing structure that is the envy of most Australian agriculture sectors. It is Wilmar's view that the introduction of a farm gate price for sugar cane would have significant detrimental effects on grower and mill profitability.

QSL's 2010 hedging losses	In 2010, QSL incurred $106 million in hedging losses associated with their management of the Seasonal Pool. These losses were passed on to millers and growers through a reduced net sugar price. Cane payments are linked to sugar price via the cane price formula, so both millers and growers shouldered the cost of QSL's losses. The "distribution" of the QSL 2010 hedging losses between millers and growers was totally consistent with the structure of the industry's pricing framework and does not imply growers have any ownership rights over a miller's sugar. Millers received a reduced net sugar price from QSL, and through the cane price formula which is based on the sugar price received by millers from QSL, this lower sugar price was reflected in lower cane prices for growers.
Wilmar made commitments to the Foreign Investment Review Board at the time of the Sucrogen acquisition	Wilmar is in full compliance with all of its FIRB undertakings. There were two such undertakings. The first was in relation to voting in favour of resolutions put to a general meeting of QSL's members which proposed to amend the QSL Constitution. This undertaking was fully complied with. The second noted that Wilmar had no current intention to seek to operate STL's sugar terminals however if contrary to its existing intentions Wilmar sought to operate STL's sugar terminal infrastructure, it would provide the same open access arrangements as are currently provided by QSL. Wilmar also remains fully compliant with this undertaking.
Wilmar's quantity of owned and managed cane land	About 3% of the total cane crushed by Wilmar mills comes from land it owns and manages. Wilmar's strategy for ownership of cane growing farms has been driven by the imperative of keeping land available for cane given the critical dependence of mills on sufficient cane supply. The vast majority of Wilmar's cane farms are on land that Wilmar has returned to cane from forestry or other uses. Notably, a small fraction of the 8,600 hectares of land owned by Wilmar was under cane at the time the land was purchased.
Deregulation and the voluntary QSL arrangements	On 1 March 2004, the Queensland Government, Canegrowers collective and the Australian Sugar Milling Council signed a Heads of Agreement on reform of the sugar industry. This agreement included establishment of a working group to develop voluntary marketing arrangements "as soon as possible". The working group recommended a commercially, non-legislatively based marketing structure for the sugar industry be developed. In a Memorandum of Understanding signed on 13 October 2005 by the Queensland Government, Canegrowers and the Australian Sugar Milling Council, Canegrowers stated it "supports the introduction of the transition to a contractual basis for raw sugar marketing from 2006." Following this, legislation was introduced to remove compulsory vesting of sugar. From that point on, millers have had the choice to exit voluntary QSL marketing arrangements.
Wilmar's raw sugar imports	Wilmar is a 75 per cent participant in the Sugar Australia Joint Venture (SAJV), which has sugar refining, storage and packing operations in Australia. Over 80 per cent of the refined sugar produced from the SAJV is produced from Australian raw sugar. From time-to-time, the SAJV refining business, which operates through the full year as opposed to the six month cycle of the cane milling season, will import raw sugar if it is more economic to do so. However, under these circumstances, the imported raw sugar is

	procured from producers or traders operating within the very same market into which Australian raw sugar is sold. SAJV does not import refined (white) sugar.
Transparency for related party transactions	Wilmar has acknowledged grower concerns about potential transactions between related bodies, and has committed in its agreements that any such transactions must be demonstrated to growers and independent auditors to be on an arms-length basis. In addition, growers will have a range of contractually documented protection measures including significant transparency measures such as detailed reporting, independent audit rights and formal dispute resolution methods (e.g. commercial arbitration), to provide growers with confidence that they will receive the full economic benefit of having access to Wilmar's extensive global network and expertise.