

# Impact of Australian Sugar Policy on the World Sugar Economy

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# Today's presentation

1. Australian industry overview
2. QSL overview
3. Australia and world sugar market
4. Australian policies impacting sugar

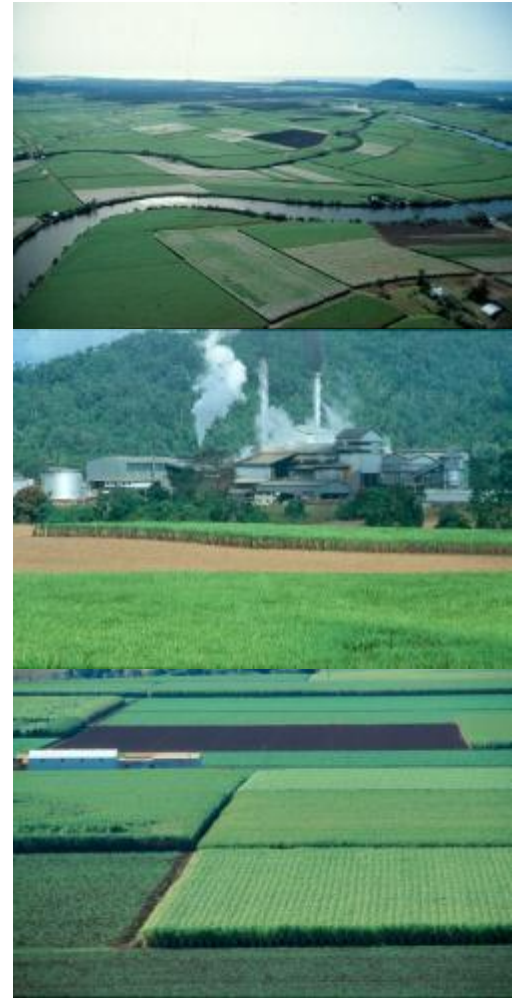
# Australian Industry Overview



# Industry Overview

## General

- Sugar is one of Australia's most valuable agricultural exports
- 80 per cent of total crop exported each year
- In a typical year:
  - 32-35 million mt of cane produced
  - 4.1 – 4.4 million mt of raw sugar
  - 2.9 - 3.1 million mt of raw sugar for export
  - 4,000 cane farms, 21 mills, 6 bulk storage terminals
  - \$1.5 – 2.5 billion value in exports
- Most raw sugar exported to Asia
- Innovative, tech-driven growing – good yields per hectare



# Industry Overview

## Sugar Industry Organisation



### Growing

Cane Growing  
4,000 family  
farms

### Milling

Sugar Milling  
21 Mills

### Marketing



### Refining

Export Refiners  
Multiple  
Countries

**CANEGROWERS**

**Australian Sugar Milling  
Council**

**Australian Cane Farmers  
Association**

**Sugar Research Institute**

**BSES Ltd**

**Sugar Terminals Ltd**

# Industry Overview

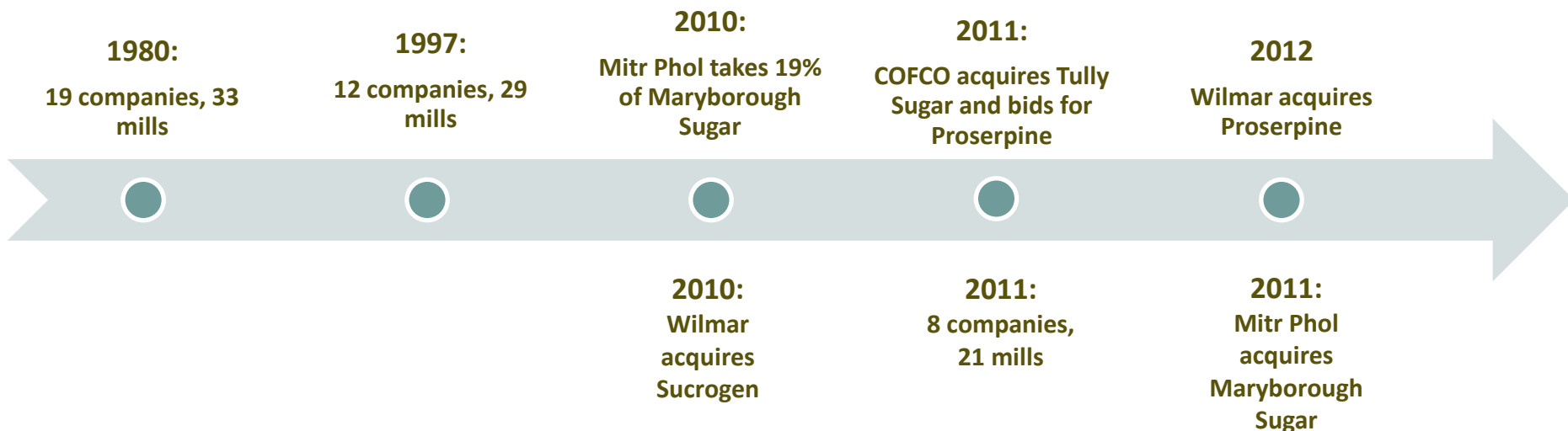
## Coastal Production

- Sugar production potential
  - 5.0 to 5.5 million tonnes
- Climate
  - Coastal rainfall key to cane production in many districts
- Irrigation
  - Underpins production in key regions
- Geography the primary constraint
  - Mountains
  - Rainforest
  - Ocean – Great Barrier Reef



# M&A activity recently in Australia

- 6 large transactions over the last 24 months
  1. Bundaberg Sugar to MSF
  2. Sucrogen to Wilmar
  3. Tully to COFCO
  4. Proserpine Mill to Wilmar
  5. MSF to Mitr Pohl
  6. Mossman mill to Mackay Sugar



# QSL Overview





# QSL Overview

## General



- QSL is a public company limited by guarantee, incorporated under the Corporations Act 2001
- The company's 35 members represent the Queensland sugar industry and are:
  - mill owners & Grower Representative Members elected to represent various mill areas in Queensland
  - Australian Cane Farmers Association representative
  - CANEGROWERS representative
- QSL receives no Government funding or subsidy and the cost of operations is deducted from proceeds of raw sugar sales

# QSL Overview

## General



- Queensland Sugar Limited (QSL) is a marketing and logistics company for bulk raw sugar exports
- Operate 6 Bulk Sugar Terminals (BSTs)
- We currently operate on behalf of 7 milling companies, who account for approximately 90% of the bulk raw sugar exports from Australia
- Provide raw sugar export marketing services for supplying mills/growers
- Operate six bulk sugar terminals and all associated capital/maintenance/risk issues
- Manage and contract all shipping
- Manage sugar price and foreign exchange exposure for Seasonal Pool
- Manage advances and payments to mill owners
- Manage raw sugar quality scheme

- QSL is regarded as having stable reliable quality
- This is achieved by:
  - operating an industry wide quality scheme – financial incentive from QSL to mills to meet preferred quality specs for 9 criteria
  - central management and planning of logistics (so customers receive sugar from same/similar load ports to meet their preferences)
- QSL strives for In Full On Time Delivery to all of our customers
  - Utilise all 6 terminals for quality and timely vessel loading
  - Flexibility and responsiveness
- Technical support

# Australia and world sugar market



## Australia's competitive advantage

- Marketing proximity to Asia
- Technical knowledge
- Logistics and infrastructure
- Value adding opportunities

.... the last 15 years have been tough in Australia



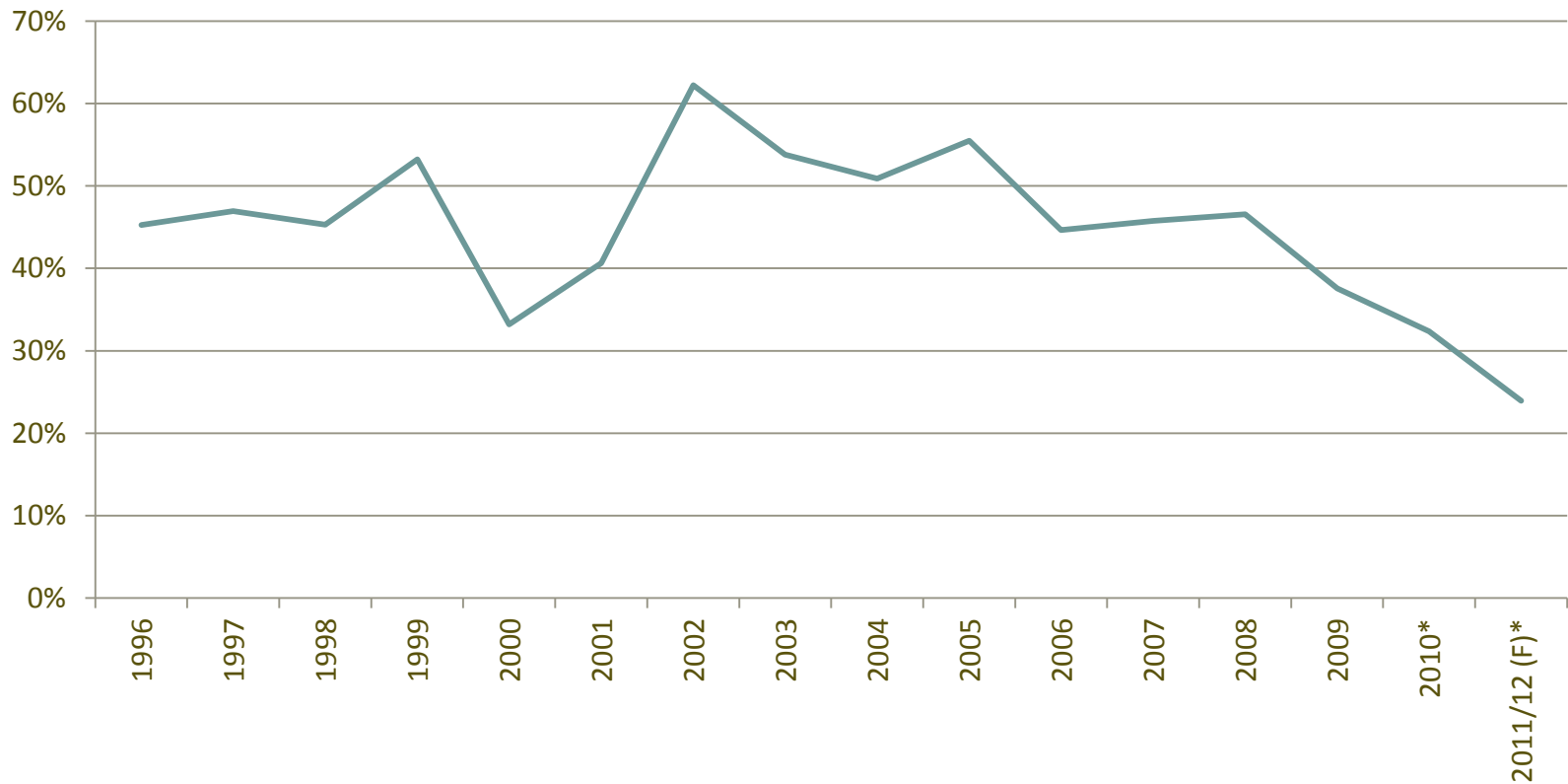
- Late 90's cane production was 40 mmt in Australia
  - .... then the Brazilian Reiz devalued
  - .... And sugar went to 3.9 USC/lb in 2003
  - .... WTO challenged the European Sugar Regime
  - .... then the financial crisis hit
- World demand kept growing at 2% p.a. tracking population growth and income growth.

.... so where is the new cane going to come from?

- Next expansion area in Brazil is 400 km from port
- Analyst believe producers need US\$450/tonne to incentivise new expansion
- At this price, other parts of the world become viable
- Thailand has responded
- Africa has potential, as does South East Asia  
..... but requires infrastructure investment
- Which brings Australia into play

# .... Australian market share in Asia declining

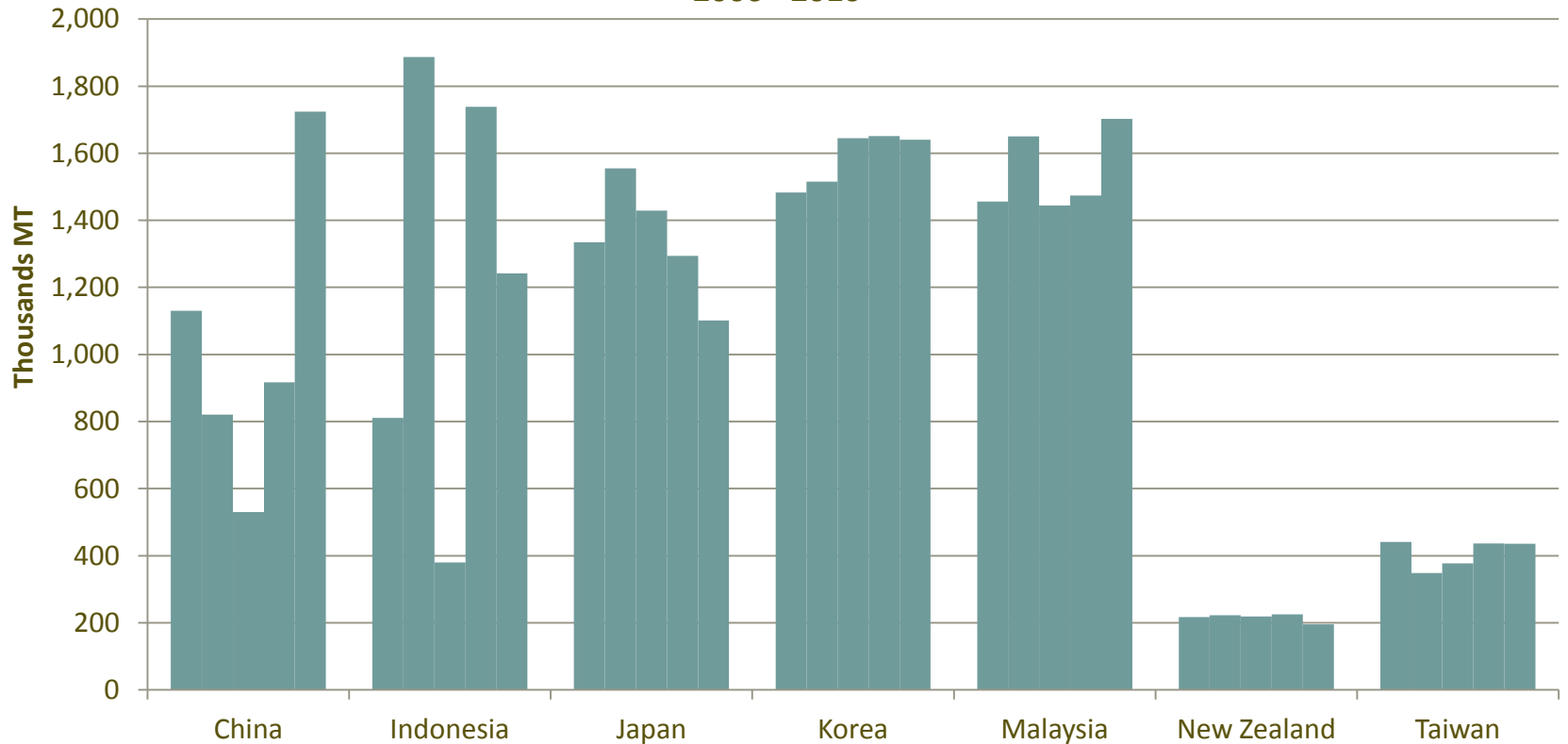
## QSL Market Share in Asia Pacific





.... growth markets have been Indonesia and China

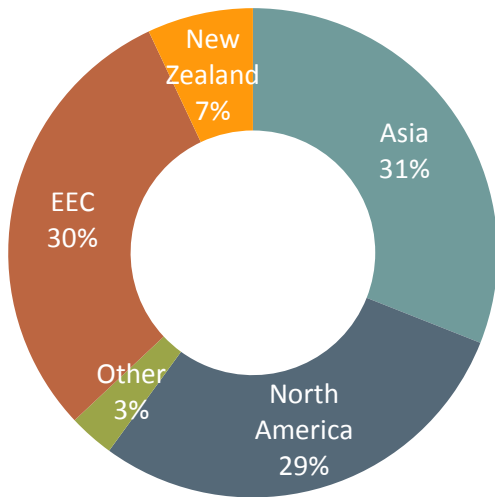
**Imports by Core Markets in Asia (Raw Sugar Only)  
2006 - 2010**



# Export Mix More Concentrated

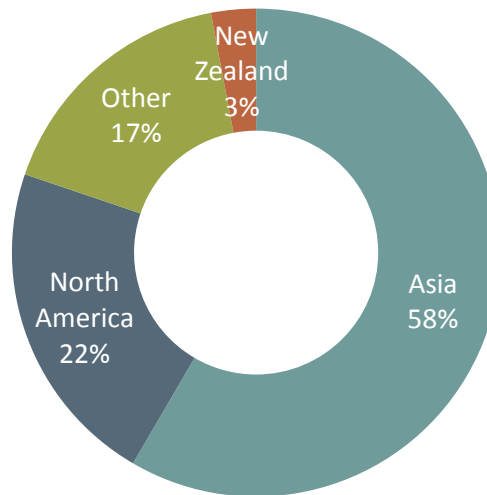
**1971**

**2.1 million tonnes  
18 customers**



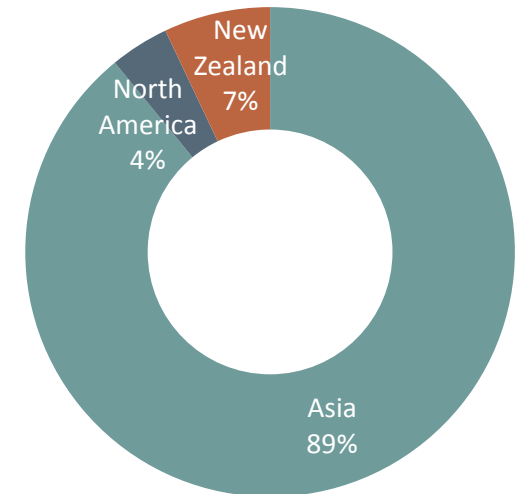
**1990**

**2.6 million tonnes  
16 customers**



**2010**

**2.7\* million tonnes  
19 customers**



\* 2.2 MT Australian origin, 0.5 MT other origin

.... to sum up



- The industry in Australia has endured a tough decade
- The world is going to need more sugar in the future
- Australia is one of the cheapest expansion options

# Australian policies impacting sugar



# Australian sugar policies

- Australia does not have a sugar policy
  - No Government role in sugar industry trade
- No protection of local industry
  - No subsidies or support, tariff or duty protection
- Australia is fully exposed to world sugar market dynamics
  - The most exposed of all producers to the world raw sugar price
  - Over 90% of raw sugar, including domestic raw sugar sales, priced on ICE#11
- Australian domestic sugar market is open to imports
  - all at world market prices
  - no import restrictions (removed in 1988)
  - no tariff protection (eliminated in 1997)

# Environmental regulations

## Reef Regulation Overview



- Political imperative to improve water quality
  - Reduce nutrients and chemicals entering GBR by 50%
  - Reduce sediment entering GBR by 20%
- Affect commercial sugarcane and grazing
  - Environmentally Relevant Activity (ERA)
- Affect specific areas
  - Wet Tropics
  - Burdekin Dry Tropics
  - Mackay Whitsunday
- Regulations
  - Keep annual records for chemical and nutrient for 5 years
  - Apply no more than optimum amount of fertiliser
  - Restrictions on use of specific residual chemicals

# Environmental regulations

## Reef Rescue



- \$200 million over 5 years (2009-2013)
- Reduce run-off from agriculture
  - Nutrients and chemicals by 25%
  - Sediment by 10%
- Investing in practice change / BMP
  - Nutrient
  - Sediment
  - Chemicals
- Outcomes
  - Measuring practice change using ABCD approach
  - Modelling water quality benefits
  - Monitoring water quality

# Australian R&D changes

- Sugarcane growers and millers are being asked by the Australian Sugar Industry Alliance to Vote for the formation of a new sugar Industry Owned Company, a dedicated single research company called Sugar Research Australia.
- Potential benefits will include:
  - modernising of the Australian industry
  - stronger research performance
  - secure funding for research, at reasonable levels
  - more money for research, variety development and biosecurity
  - sugar industry levy payers will be the owners of Sugar Research Australia