MSF Sugar

28 October 2016

The General Manager
Adjudication Branch
Australian Competition and Consumer Commission
GPO Box 3131
CANBERRA ACT 2601

By e-mail: adjudication@accc.gov.au

Dear Sir / Madam

Re – A91558 – Queensland Cane Growers Organisation Ltd - submission

Thank you for the invitation to make a submission in respect of Queensland Cane Growers Organisation Ltd ('Applicant') application to the Commission for authorisation (A91588) ('Application').

Executive Summary

The Federal and Queensland State Governments' deregulation of the Australian sugar industry has created an environment to allow for innovation in the growing, milling and marketing sectors of the sugar industry.

MSF Sugar Limited (MSF Sugar) is viewed by some in the sugar industry as a non-conformist as it has taken advantage of the opportunities of the 2006 deregulation of raw sugar marketing to market raw sugar outside of the traditional single desk marketer (QSL).

In the marketing sector a great deal of innovation has occurred, with MSF Sugar leading many of these innovations, while still maintaining the direct link between the price of sugar cane and the international raw sugar price (as defined by the ICE11 raw sugar futures market). This link has ensured the price transparency for the price of sugar cane.

The deregulation of sugar marketing has seen a number of cane pricing mechanisms being developed to allow individual or smaller collective groups of growers to directly price their cane by pricing on the international raw sugar market (ICE11 raw sugar futures market). However, growers have also had the choice to remain in a large collective pricing pool if that is their wish (as was the situation in the regulated environment).

Raw sugar produced at the Mulgrave and Maryborough Mills has been successfully directly marketed to raw sugar buyers in Asia since 2006. MSF Sugar's physical marketing activities have successfully co-existed with the operations of QSL, with shared access to Bulk Sugar Terminals at Cairns and Bundaberg Ports, each accessing ships to

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PART OF THE MITR PHOL GROUP

transport the raw sugar to market and each separately negotiating raw sugar sales to the large raw sugar refiners in Asia.

MSF Sugar has been demonstrably effective in delivering pricing choice and facilitating better financial outcomes for cane growers. In 2015 and 2016, growers who supplied sugar cane to Mulgrave and Maryborough Mills had the option to either have their cane priced through the MSF Sugar's or the QSL's marketing systems. More than 90% of independent growers who supply these mills have elected to stay with the MSF Sugar's marketing system of which they have been a part of since 2006.

In 2012, MSF Sugar was acquired by the large Thai sugar miller Mitr Phol. Since this purchase Mitr Phol has invested more than $200 million in expanding the sugar industry in the Maryborough and Far North Queensland regions.

It is the view of MSF Sugar and Mitr Phol that the deregulation of the sugar industry has facilitated innovation and made the Australian sugar industry an attractive investment opportunity, while existing competition laws have enabled MSF Sugar to access key industry infrastructure (such as the bulk raw sugar terminals) to market raw sugar outside of the traditional single desk marketer (QSL) and still allowed MSF Sugar' to ensure cane price transparency for growers who supply sugar cane to MSF Sugar's mills.

Overall information about MSF Sugar

MSF Sugar is an integrated sugar cane grower, sugar miller, marketer and exporter of raw sugar.

MSF Sugar's assets include four sugar mills, sugar cane farms and shares in STL (the owner of the bulk sugar terminals). The mills are located at Gordonvale, South Johnstone, Atherton Tableland and Maryborough. The company's four sugar mills have a total crushing capacity of 4.7 million tonnes of cane and produce approximately 600,000 tonnes of raw sugar per annum. MSF Sugar is the third largest sugar miller in Australia.

MSF Sugar's cane farms grow approximately 650,000 tonnes of cane, making MSF Sugar the largest cane farmer in Australia.

MSF Sugar employs nearly 750 people of whom 380 are full-time. A total of 630 independent cane growers supply its four sugar mills.

MSF Sugar has sugar cane farms totalling around 13,000 ha, split between the Maryborough, Innisfail and Atherton Tableland regions. These farms are an important source of cane to the company's sugar mills and supplement the sugar cane source from the company's 630 independent cane growers.

MSF Sugar's direct output into the regional Queensland economy is around $275 million per annum – with most of this generated in Far North Queensland.

The company has a 18.49% share ownership in Sugar Terminals Australia (STL), the owner of six major raw sugar export port facilities in Queensland. STL owns bulk raw sugar storage and loading facilities at the Queensland regional ports of Cairns, Mourilyan, Lucinda, Townsville, Mackay and Bundaberg. These facilities can store up to 2 million tonnes of raw sugar, which is around 50% of the raw sugar produced in Queensland in a single year.

The company's future vertical integration strategy is to have an efficient operation from the farm through to the raw sugar buyers in Asia. MSF Sugar is investing throughout this value chain to improve efficiencies, with more than $150 million invested in the past three years and a further $500 million to be invested in the next five years to this aim.

MSF Sugar is also working with Canegrowers on a project to unlock opportunities in the Far North Queensland region to improve farm profitability by standardising farming systems to allow more efficient farming practices. MSF Sugar is providing financial support to allow the required changes in farming equipment as a result of this project.

MSF Sugar wants, and has, a history of working with growers at the local level to improve the local sugar industry's profitability.

Recent history of MSF Sugar

MSF Sugar is the product of the recent merger/acquisition of three sugar milling businesses.

The initial sugar milling business was The Maryborough Sugar Factory, a small listed sugar mill and grower based in Maryborough, Queensland. This mill traditionally made raw sugar for the domestic refiners, with QSL handling the marketing activities.

The deregulation of marketing in 2006 meant that QSL could no longer be involved in domestic marketing activities so The Maryborough Sugar Factory had to develop marketing capabilities and worked with the local growers to develop a cane pricing method. This was the start of the journey.

At the same time Mulgrave Central Mill also decided to market outside of QSL when the deregulation of marketing occurred. At the time Mulgrave Central Mill was a grower-owned cooperative mill. They too worked with their local growers to develop a marketing system.

In 2009 Mulgrave Mill was acquired by The Maryborough Sugar Factory and both marketing efforts were combined.

In 2010, The Maryborough Sugar Factory and Bundaberg Sugar created a milling joint venture from each party contributing their Far North Queensland Mills. The mills involved were Mulgrave, South Johnstone, Tableland and the now closed Babinda mills. The Bundaberg Sugar mills had a raw sugar supply contract with QSL. This contract remained in force with QSL.

In 2011, The Maryborough Sugar Factory changed its name to MSF Sugar and also acquired the Bundaberg Sugar share of the milling joint venture.

MSF Sugar was then in the unique situation of having half of the raw sugar it produced being marketed by itself and half being marketed by QSL (as part of an existing Raw Sugar Supply Agreement). In 2010 and 2011 MSF gave notice to QSL under this Raw Sugar Supply Agreement (RSSA) as it was not practical to continue in this manner. As a result MSF Sugar gave notice to discontinue the RSSA in late June 2014. The RSSA with MSF Sugar will terminate in June 2017.

MSF Sugar's submission

MSF Sugar Ltd wishes to make submissions on the following aspects of the Application:

- the extension of collective bargaining to terms of forward pricing;
- the extension of collective bargaining to the essential terms of on-supply contracts for the sale of grower economic interest ('GEI') sugar to sugar marketers;
- the extension of collective bargaining to terms capturing the value of by-products and related products from sugar cane;
- the extension of collective bargaining to any other contracts or arrangements relating to the supply of or processing of sugar cane;
- the extension of collective bargaining across and between each region prescribed in the regulations with a common mill owner or common sugar marketer;

- the extension of collective bargaining across each region prescribed in the regulations regardless of commonality of mill ownership or sugar marketer; and

- the competitive dynamics of the sugar industry in Queensland

Overall, the proposed request for authorisation by the Applicant is a substantial change on current provisions authorised and provided for under the *Sugar Industry Act 1999* (Qld) ('Sugar Industry Act') and, if were granted, would move the industry back into a regulated environment.

1 The extension of collective bargaining to terms of forward pricing

1.1 The deregulation of sugar marketing has seen a number of cane pricing mechanisms being developed to allow individual or smaller collective groups of growers to directly price their cane by pricing on the international raw sugar market (ICE11 raw sugar futures market). However, growers have also had the choice to remain in a large collective pricing pool if that is their wish (as was the situation in the regulated environment).

1.2 The provision of this depends on the MSF Sugar developing relations with banks and financial institutions to allow MSF Sugar to offer prices to growers ahead of the current crushing season. The contractual relationships between the mill and the bank and financial institutions that enable this arrangement to take place are complex and require the mill to offer substantial security.

1.3 MSF Sugar's current arrangements with growers are created by MSF Sugar, and we have agreed term and conditions with banking and financial institutions accordingly. The enclosed Cane Pricing Guide clearly demonstrates that MSF Sugar is the logical connection between the financial institutions to enable forward pricing terms to be established.

1.4 As the ability for mill owners to offer forward pricing to growers is directly attributable to the mill owner's ability to obtain the necessary finance, MSF Sugar submits that it is neither practical nor desirable for growers to collectively bargain for these terms.

2 Extension of collective bargaining to the essential terms of on-supply contracts for the sale of grower economic interest ('GEI') sugar to sugar marketers

2.1 Under the *Sugar Industry Act 1999* (Qld) ('Sugar Industry Act'), contracts for the supply of cane which include a term requiring the grower to bear the sale price exposure for the GEI sugar must also:[1]

  - include a term requiring the mill owner to have an agreement with a marketing entity to sell on-supply sugar equivalent to the GEI sugar;

  - unless agreed otherwise, a term allowing the grower to nominate that marketing entity; and

  - if the grower nominates the marketing entity, a term requiring the mill owner to deliver on-supply sugar equivalent to the GEI sugar to the marketing entity.

2.2 The effect of this legislative requirement is that the mill owner bears the commercial risk and responsibility of developing commercial terms with sugar marketers, ensuring that these terms are congruent with the mill owner's terms with the grower, and ultimately to effect the sale of the on-supply sugar equivalent to the GEI sugar.

[1] *Sugar Industry Act 1999* (Qld) s 33B(2)(d), (e).

2.3 MSF Sugar submits that mill owners should be able to perform their obligations under this legislation in normal commercial circumstances. It would not be practical or reasonable for mill owners to bear the commercial risk and responsibilities of selling the on-supply sugar to marketers while having the terms subject to bargaining by growers who are not party to the on-supply contract.

3 Extension of collective bargaining to terms capturing the value of by-products and related products from sugar cane

3.1 The Sugar Industry Act prescribes a set of terms that must be included in a cane supply contract.[2] These include:

- a term providing the amount, or the basis for working out the amount, of the payment from a mill owner to a grower for the supply of cane; and
- unless the parties otherwise agree, a term requiring the amount of the payment for the cane to be worked out in a way that links the amount to the sale price of the on-supply sugar.

3.2 The mechanics of giving growers a choice in the GEI sugar marketing entity which markets sugar nominally produced from a grower's cane only works if the price the grower receives for their cane is linked to the price at which their sugar is on-sold by the owner of the mill.

3.3 The pricing terms provisions are, therefore, necessarily limited to the 'value' of the sugar when it is on-sold into the raw sugar market.

3.4 The current cane price formula is limited to sugar only and the recent changes to the Sugar Industry Act reinforced the link between sugar cane and raw sugar only. MSF Sugar believes it is not necessary to mandatory the inclusion of by-productions or related products.

4 Extension of collective bargaining to "any other contracts or arrangements relating to the supply of or processing of sugar cane"

4.1 MSF Sugar submits that this aspect of the Application is too broad and uncertain to allow the Commission to ascertain and weigh the public benefits and detriments from the proposed conduct and should not be authorised by the Commission.

4.2 MSF Sugar also submits that authorising collective bargaining on an undefined, or at best loosely defined through the words "relating to", is likely to be detrimental as it would create significant uncertainty and lead to disagreements between mill owners and growers over the coverage of the authorisation, harming efficiency.

4.3 For example, this could extend to authorisation of collective bargaining in relation to cane transport costs, fuel supply contracts related to that transport, procurement contracts for milling and related processing equipment, and even enterprise bargaining agreements with staff operating the supply and processing of sugar cane.

4.4 Further, MSF Sugar submits that the specific items authorised under the Sugar Industry Act[3] appropriately delineates conduct which may be the subject of collective bargaining and other price and supply agreements that may otherwise be in breach of Part IV of the *Competition and Consumer Act 2010* (Cth).

[2] *Sugar Industry Act 1999* (Qld) s 33B.
[3] *Sugar Industry Act 1999* (Qld) ss 237 and 238.

5 Extension of collective bargaining across and between each region prescribed in the regulations with a common mill owner or common sugar marketer

5.1 The Sugar Industry Act authorises collective bargaining for cane supply contracts within the four regions prescribed in the Sugar Industry Regulation 2010 (Qld) ('Sugar Industry Regulation').[4]

5.2 The Application seeks to have collective bargaining authorised across a wider geographic range: firstly, across and between each region with a common mill owner or common sugar marketer; and secondly, across and between each region regardless of commonality of mill ownership or sugar marketer (see section 6 below).

5.3 The first point MSF Sugar wishes to draw the Commission's attention to is that the Application does not adequately describe or account for the significant differences between each mill and each region. These differences make the notion of state-wide bargaining impractical and at odds with the facts of the industry.

5.4 There are significant differences between each mill and each region which require mill owners, including those with operations across the state, to have bespoke terms with the growers that supply cane to each particular mill.

5.5 This is because each mill, and each region, is characterised by the particular facts of:

- the mill's processing technologies, facilities and requirements;
- climactic and other variations in the cane that it processes;
- the transport logistics in the region which service each mill; and
- the nature of the growers supplying cane to each mill.

5.6 As a result, the commercial intricacies of each cane supply contract, and the relationships between each mill owner and the growers from which it purchases cane, are necessarily unique.

<u>Arguments raised in Application</u>

5.7 The reasons supporting this aspect of the Application appear to be two-fold.

5.8 The first reason is that the current regions prescribed under the Sugar Industry Regulation have not been reviewed since 2010 and, therefore, do not take into account changes in mill ownership structure or local government boundaries that have occurred since that time.

5.9 The second reason is that mill owners, which operate across regions, have greater visibility of contractual negotiations with all suppliers when compared to growers who only have visibility of contractual negotiations with mill owners in their region. MSF submits the following in response to these two reasons.

The prescribed regions have not been reviewed or updated

5.10 In the Explanatory Notes to the Sugar Reform Industry Bill 2004 (Qld), which inserted the authorisation for collective bargaining on this geographic basis, the Queensland Parliament specifically outlined the reason for authorising collective bargaining in this manner. The Explanatory Notes state that:[5]

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[4] *Sugar Industry Act 1999* (Qld) s 237.
[5] Explanatory Notes, *Sugar Industry Reform Bill 2004* (Qld), p 7.

> "[a]llowing the word "region" to be prescribed under a regulation enables the Act to be amended by subordinate legislation…the ability to prescribe a region in this way is considered necessary and justified. Flexibility in prescription enables Government to allow the authorisation to work according to circumstances required by industry. The "regional" relationships between groups of growers and mill owners are not necessarily fixed or ascertainable at any one point in time."

5.11 The Parliament was aware of the possibility that the defined regions would need to be changed. This is reflected in its decision to delegate the power to the executive government of the day to amend the boundaries of the defined regions to respond quickly to changed circumstances in the industry. Such circumstances would, among other things, cover the "changed mill ownership structures" identified in the Application.

5.12 MSF Sugar submits that the issues identified in the Application are expressly catered for in the Sugar Industry Act through its interaction with the Sugar Industry Regulation. As highlighted by the Explanatory Notes as quoted above, the Queensland Government recognised the precise issues identified in the Application and has adopted a measured and reasonable approach to authorisation.

5.13 MSF Sugar submits that, in the face of such a clearly enunciated public policy, it is not in the public interest for the Commission to override State legislation on the basis that the discretion and flexibility provided under that legislation may not have been exercised as frequently or in the manner wished by the Applicant.

5.14 Further, it would be detrimental to remove the flexibility and responsiveness deliberately built into the Sugar Industry Act and replace it with the blunter version sought by the Applicant which would deny the Queensland Government the ability to review industry dynamics and calibrate its policy response accordingly.

5.15 We have not been able to locate any precedents within applications for authorisations which have been granted by the Commission to date which would immunise conduct of the width and breadth of that described in the Application.

5.16 That is, we have not been able to locate any precedent with applications of authorisation granted by the Commission for all producers in an industry to collectively negotiate for the supply of all their products to all customers as well as persons who could not physically purchase their product but who compete with their customers in the export market.

Mill owners have greater visibility over negotiations across regions than growers

5.17 In respect of this second reason given in the Application for the extension of the geographic boundaries in which collective bargaining would be permissible, MSF Sugar asks the Commission to note that the Sugar Industry Act is expressed to be designed to support "normal commercial processes to drive positive outcomes" and "growers to freely engage in the market for the supply of their cane". It is within this context that the Sugar Industry Act "also enables growers to participate in "opt in" collective arrangements with millers [which is] an opportunity, not an obligation".[6]

5.18 The purpose of the authorisation for collective bargaining is not to engineer a circumstance in which the legitimate commercial features of mill owners are perfectly equal with those of growers, including when the interests of mill owners are not themselves equal.

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[6] Explanatory Notes, *Sugar Industry Reform Bill 2004* (Qld), p 5.

5.19 Further, as described above, there are significant differences across cane growing regions which require different terms in cane supply contracts. It is not correct to assume that mill owners with state-wide "transparency" (as described in the Application) make decisions on the details of cane supply contracts on a state-wide basis (noting that the price formula linking the price paid to growers to the world sugar price is consistent).

5.20 Growers in a certain region, who cannot supply cane for processing in a mill of significant distance away, negotiate terms with the mill and in the region which is applicable to their particular circumstances. As the details of cane supply contracts across regions are not uniform due to the regional variances described above, MSF Sugar submits that it is not feasible or desirable for growers to collectively bargain for the terms of cane supply contracts that do not, and in many instances cannot, apply to their cane.

6 Extension of collective bargaining across and between each region prescribed in the regulations regardless of commonality of mill ownership or sugar marketer

6.1 Please refer to our submission in section 4 above.

7 General comments on the competitive dynamics of the sugar industry in Queensland

7.1 MSF Sugar submits that adequate protections continue to exist under the auspices of the Sugar Industry Act, in that:

- cane producers continue to be paid on the same basis now as they were prior to deregulation and continue to be able to negotiate collectively;
- the cane price formula that determines cane price is unchanged;
- there is a very close symbiotic relationship between cane growers and millers. Each party relies on the other for its survival; and
- growers have demonstrable alternatives for land use.

Each of these points are developed below.

Cane producers are paid on the same basis now as they were prior to deregulation

7.2 Cane producers continue to be paid for their cane on the same basis that existed prior to deregulation. In fact deregulation has enabled innovation so that individual or collective groups of cane producers are more able to influence the components of the cane price formula by taking decisions with regards to the pricing of components of the formula.

7.3 It is important to recognise that cane producers have always been paid for cane, not sugar. The link between cane price and raw sugar price is to ensure that cane producers are incentivised to deliver the best quality cane and thereby financially rewarded for the quality of that cane.

7.4 When the sugar industry was deregulated, growers continued to be able to negotiate collectively, and do so effectively, which constrains potential market power by mill owners. The current payment arrangements and the transparency which they provide continue to play an important role.

Cane price formula is unchanged

7.5 The interest of growers continues to be served by a clear and transparent cane price formula that is linked to the sugar price. All existing cane supply arrangements continue to maintain this link, and there is no proposal by any mill to amend this. The integral link between cane producer and miller encourages the miller to facilitate the grower to achieve the highest cane price.

7.6 Cane producers have continued to be paid on the same basis for their cane as was the case prior to deregulation. In fact, the deregulation of sugar marketing has seen a number of cane pricing mechanisms being developed to allow individual or smaller collective groups of growers to directly price their cane by pricing on the international raw sugar market (ICE11 raw sugar futures market). However growers have also had the choice to remain in a large collective pricing pool if that is their wish (as was the situation in the regulated environment).

7.7 MSF Sugar negotiates a cane supply contract with the growers who supply its four sugar mills. Each mill has its own cane supply contract however the underlying cane price formula is the same at all mills. The basic cane price formula links the tonnes of cane supplied, the sugar content in the cane (called CCS) and the world sugar price.

The basic cane price formula is:

$P_{cane} = P_{sugar} \text{ x } (CCS – 4) \text{ x } 0.009 + \text{constant}$

Where P_{sugar} is the net sugar price from sales to the world sugar market. More than 95% of the net sugar price is determined from the ICE11 raw sugar futures market.

7.8 However, each mill's cane supply contract may have some small variations on additional payments which mainly relate to cane logistics issues. This is incorporated in the constant in the cane price formula. This constant is less than $1 per tonne of cane, making up less than 5% of the P_{cane}.

7.9 The cane price formula in effect splits the revenue from the sale of raw sugar into the revenue to pay for the cane and the revenue the mill needs to operate the sugar mill and to make a profit for its business. The revenue to pay for the cane started to be called 'grower economic interest sugar' in around 2012, and was enshrined as a term in the Sugar Industry Act as GEI in 2015. The grower share of the revenue from the sale of raw sugar is in the region of 60 to 65%, depending on the CCS of the sugar cane supplied.

7.10 Despite the notional splitting of the revenue described above, the risk on the raw sugar is transferred to the mill when title for the cane is transferred to the miller. This occurs when a grower delivers sugar cane to an agreed rail siding or truck pickup point. From this point the miller takes responsibility for transporting the cane to the mill, the conversion of the sugar cane into raw sugar and the delivery of the raw sugar to the export bulk terminal.

7.11 In both the MSF Sugar and QSL marketing systems both the miller and grower share in price risk of the physical sale to the final raw sugar buyer as it will impact on the P_{sugar}.

7.12 Growers who supply sugar cane to MSF Sugar can either have their P_{sugar} determined by the MSF Sugar marketing system or the QSL marketing system. The arrangements in place by MSF Sugar mill are as follows:

Milling Region	Current Cane Pricing System	Comment
Maryborough	MSF Sugar or QSL	QSL as an option since 2013. MSF and QSL option 2017 onwards
Mulgrave	MSF Sugar or QSL	QSL as an option since 2013. MSF and QSL option 2017 onwards
South Johnstone	QSL only	MSF and QSL options 2017 onwards
Tableland	QSL Only	MSF and QSL options 2017 onwards

There is a very close symbiotic relationship between cane growers and millers. Each party relies on the other for its survival

7.13 Sugar cane has:

- low value per tonne (around $60 per tonne of cane), necessitating crops to be grown close to a mill (around 30km) to minimise transport costs;
- must be converted into raw sugar within 24 hours of harvesting; and
- it can only be converted into raw sugar or ethanol.

7.14 A sugar mill:

- can only process sugar cane;
- needs a very large volume of sugar cane to cover its fixed costs; and
- needs the sugar cane to be harvested in an orderly manner to maintain its quality

7.15 As such, both the sugar cane grower and the sugar mill must work together to have sufficient cane to mill and ensure that the harvesting of cane proceeds in an orderly manner.

7.16 MSF Sugar cannot afford to treat growers poorly as it will have insufficient cane to profitability operate a sugar mill.

Growers have demonstrable alternatives for land use

7.17 Sugar cane farmers have options on what they do on their land, and in fact many land owners in the region around a sugar mill use their land for uses other than growing cane.

7.18 The fact is that sugar mill owners are exposed to more risk than individual sugar cane growers. There are several recent instances were sugar mills were forced to close because growers collectively stopped providing enough sugar cane to operate a sugar mill economically. The most recent example was when MSF Sugar closed Babinda mill in 2012 because of inadequate cane supply and rationalised cane supply in the region by transferring this cane to the adjacent Mulgrave and South Johnstone Mills.

7.19 Another example is the closure of Moreton Mill (by Bundaberg Sugar) on the Sunshine Coast region of SE Queensland. The closure of this mill (due to inadequate cane supply) has effectively ceased the growing of sugar cane in this region. MSF Sugar is trying to foster a small cane growing industry in this region by working with local growers to truck cane over 100 km to the Maryborough Mill. This haul distance is longer than what is normally considered economic but in this situation both the grower and the mill are working closely together to try to retain sugar cane growing in this region.

7.20 Should cane growers wish to leave the sector they have options to move from cane farming to alternative farming activities relatively quickly (Table 1), providing adequate protection against perceived adverse decisions by the sugar miller which may be affecting their farming activities.

Mill Region	Other major activities and risks	Comments
Maryborough	Cattle and small acre hobby farms	Many cane farms are seen as an ideal size for a large hobby farm
South Johnstone	Bananas and Cattle	The region is one of the major banana growing regions in Australia
Mulgrave	Urban encroachment	This has seen sugar mills close in the area as the cane land is ideal for urban development
Tableland	Bananas, avocados, small crops, macadamia nuts, cattle and dairy	This region due to its number of micro climates is an ideal area for many agriculture activities

Table 1 Alternative land uses in the area surrounding the MSF Sugar mills

7.21 Table 2 demonstrates what happened in the Babinda/Innisfail region when the economic return from growing sugar cane is not financial competitive as other land uses.

Year	Cattle	Bananas	Trees	Real Estate	Abandoned	Tully	Total
2004/05	650	933	327	-	-	-	**1910**
2006	898	656	639	-	-	-	**2193**
2007	388	151	497	22	-	-	**1058**
2008	588	198	588	90	-	1467	**2931**
2009	360	267	414	99	361	56	**1557**
2010	93	74	-	27	72	-	**266**
2011	19	-	-	-	-	-	**19**
Total	**2996**	**2279**	**2465**	**237**	**432**	**1523**	**9932**

Table 2 Area in hectares lost to alternative land uses in the period 2004 to 2011 in the Babinda/Innisfail region

7.22 In summary, an owner of a sugar mill is totally reliant on the local land owners to grow sugar cane. Without this supply, the mill is uneconomic and will be forced to eventually close. A land owner, on the other hand, has many choices of what to do with their land, with the growing of sugar cane being only one option. Therefore it is important for a sugar mill owner to:

- operate an efficient, reliable mill;
- maintain an appropriate season length;
- ensure sugar is competitive with other uses for the grower's land;

- provide a financial outcome from cane better than alternative uses for the land;
- have a transparent method to determine the price of cane; and
- have an equitable method to harvest and deliver sugar cane to the mill for processing over a five-month harvest period.

8 Conclusion

8.1 The Sugar Industry Act provides for a level of authorisation that reflects the facts of the sugar industry in Queensland, and provides the Queensland Government an effective mechanism to calibrate policy through regulation as circumstances change.

8.2 The extensions to this authorisation sought in the Application are not congruent with the facts of the industry as they seek to place a state-wide scope over unique regions; do not reconcile with the legislative requirements placed on mill owners who bear the responsibility and commercial risk of selling on-supply sugar to marketers and who must obtain the finance necessary to offer forward pricing; and do not match the widely understood and legislatively recognised link between the price of sugar, rather than by-products, and the price of cane.

8.3 MSF Sugar is firmly of the view that growers and mill owners are operating effectively in the current environment and have developed cane supply, processing, and marketing relationships that are mutually beneficial. Growers receive prices for their cane on the same fundamental basis that they were prior to deregulation in 2006, and mill owners have an inextricable interest in retaining the business of local growers to ensure the viability of their mills.

8.4 MSF Sugar believes that broadening the scope of collective bargaining in a such a significant manner as the Application seeks to do requires a high degree of certainty in the problem that authorisation purports to address. MSF Sugar submits that the Application, the facts of the industry, and the current regulatory environment do not provide this certainty, and submits that the Commission should not make the authorisations sought.

Yours sincerely

Mike Barry
Chief Executive Officer

1. Attachment A – Cane Pricing Guide

MSF Sugar

Cane Pricing Guide

For growers who nominate MSF Marketing as their Pool Manager

Welcome

As a valued supplier of cane to MSF Sugar mills, I welcome you to the Cane Pricing Guide. MSF Sugar is proud of the marketing business we have developed over the last decade, a business that has been founded on establishing trust with its suppliers through collaboration and transparency.

MSF Sugar and its parent company Mitr Phol continue to invest in the future of the sugar supply chain, to maximise the value of the sugar from the cane that you produce. A key to achieving this goal is ensuring that all participants achieve the best price possible, to encourage all participants in the supply chain to continue to invest in their businesses.

Regards,
Mike Barry – CEO

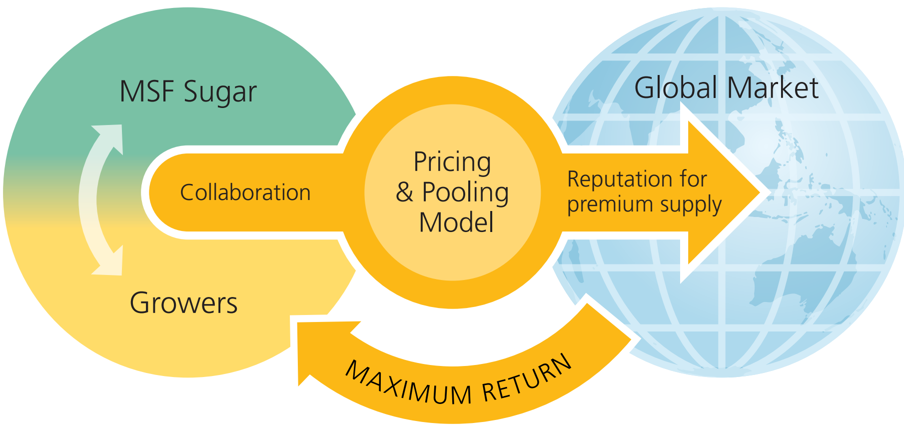
MSF Marketing has a long history of working with cane growers to maximise the profitability of cane enterprises. The key to our past success has been our open and transparent dealings with our suppliers and the valued input of grower representatives to the constant improvement of our Pricing & Pooling Model.

The sugar market remains as volatile as ever. To maximise your returns it is important that you are aware of the various alternative methods available to set your cane price. I encourage you to become familiar with all of the options available to you when using the MSF Pricing & Pooling Model.

MSF Marketing is proud of the connectivity that it has established across the supply chain, becoming known as a premium supplier of sugar on the global stage. Our direct link back to growers is an important factor in our market presence and we look forward to working with you to maximise the value of the sugar produced for the benefit of all participants in the supply chain.

I hope you will find this Guide helpful and encourage you to call us to discuss the ways we can help you achieve your pricing goals.

Regards,
Paul Heagney – General Manager Marketing



Trust and transparency in our supply chain

This Cane Pricing Guide is provided solely for informational and promotional purposes only and should not be relied upon or construed as financial advice. MSF Sugar does not accept any responsibility to any person for the decisions and actions taken by that person with respect of any information contained in the Guide. Whilst all care is taken in the preparation of the Guide the reliability or accuracy of the information provided in the Guide is not guaranteed. The contents of this Guide are intellectual property of MSF Sugar and any unauthorised use, copying or other dissemination shall be considered illegal and is strictly prohibited.

About MSF Marketing

MSF Marketing is a fully resourced commodity business with specialist commodity risk management, physical sales and logistics and support teams.

Strength in our region

MSF Marketing is a business unit of MSF Sugar and is responsible for the pricing and physical sales of all raw sugar marketed by MSF Sugar.

MSF Marketing manages the raw sugar produced from MSF Sugar's cane farms, mill margin sugar under the Cane Supply Agreements and Grower Cane Pay Sugar exposure where the grower has nominated MSF Marketing as the Pool Manager.

MSF Marketing is a fully resourced commodity business with specialist commodity risk management, physical sales and logistics and support teams to ensure the maximum value can be achieved for the sugar produced and marketed by MSF Sugar.

Contents

MSF Sugar

MSF Sugar Limited is a wholly-owned subsidiary of the Mitr Phol Group.

Mitr Phol is the largest sugar producer in Asia and fourth-largest sugar producer in the world. Mitr Phol's key business activities are in sugar, ethanol, bio-energy, fibre products, logistics and paper. Mitr Phol has sugar operations in Thailand, China, Laos, Cambodia, Vietnam and Australia.

MSF Sugar is an integrated business centred on growing, milling, marketing and exporting raw sugar in Queensland. It has four mills, spread from Maryborough in the south to the Tableland Mill in Far North Queensland.

MSF Sugar is now part of an Asian network of sugar businesses that are focused on seeking sales opportunities in the Asian region where sugar consumption is greater than production.

This wide supply focus within Asia, together with MSF Sugar's reputation as a quality supplier of raw sugar, represents a stable, strongly resourced marketing operation for suppliers to MSF Sugar.

History of MSF Marketing

Following deregulation in 2006, Mulgrave Mill began to independently market raw sugar produced at the Mulgrave and Mossman Mills for direct export. Simultaneously the Maryborough Mill began selling its production to a domestic refiner.

In 2008 MSF Sugar acquired The Mulgrave Central Mill Company Limited. Shortly after bringing the Maryborough Mill and Mulgrave Mill operations together, the marketing function of the enlarged group was consolidated and all sugar from both mills was exported independently.

MSF Sugar is strongly focused on supplying the growing demand for sugar in Asia and has established strong customer relationships in all key importing countries in this region. MSF Marketing's main export markets include Japan, South Korea, China and Indonesia, with direct shipping arranged from Queensland to each of these destinations.

Beginning in the 2011 season, MSF Marketing has handled the sales and marketing of all MSF Sugar raw sugar production. MSF Marketing's customer focus, logistics management and pricing strategies have enabled us to take advantage of our position as an independent Australian seller to the export market. In 2013, MSF Sugar entered into a Raw Sugar Supply Agreement (RSSA) with QSL.

During this time, the Mulgrave Mill and Maryborough Mill suppliers had a choice whether to remain with MSF Sugar or return to QSL as their nominated Pool Manager.

Following the withdrawal of Wilmar from the new RSSA, MSF Sugar gave notice under the terms and conditions of that commercial contract, and were closely followed by Tully Sugar. The withdrawal from QSL takes effect at the commencement of the 2017 season.

MSF Marketing Pricing & Pooling Model

Growers who choose MSF Marketing as their Pool Manager to determine the Final Sugar Price as part of the Cane Price Formula have access to a wide range of choices for ICE Futures Sugar Pricing Pools and an inclusive and transparent Shared Pool model to manage physical premiums and costs.

The MSF Marketing Pricing & Pooling Model has been refined over the last decade and has an excellent history of performance, providing growers with market leading alternatives.

The MSF Marketing Pricing & Pooling Model has the following two key elements:

- All physical premiums and costs are equally shared between MSF Sugar and the growers.
- MSF Marketing provides transparency to growers via the Grower Reference Panel.

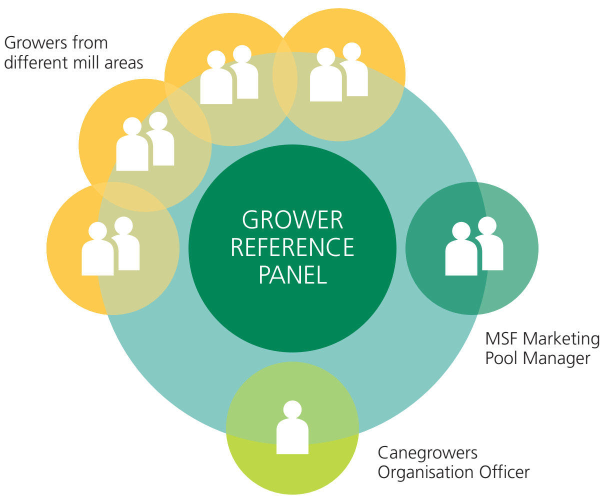
Grower representation and participation

A key to the MSF Marketing Pricing & Pooling Model is the involvement of grower representatives in the formation of the Model as well as pricing decisions in the case of long term pricing.

Grower Reference Panel
The Grower Reference Panel was initially established to enable grower representatives to contribute to the formation of the current version of the MSF Marketing Pricing & Pooling Model. Once the model was established, the role of the Grower Reference Panel was modified to facilitate the transparency measures of the Model's performance, which includes the Marketing Plan & Pool performance reporting and auditing.

The Grower Reference Panel is comprised of 2–3 growers from each mill area in which growers have nominated MSF Marketing as their Pool Manager, along with a Canegrowers organisation officer. The Grower Reference Panel meets quarterly. All members of the Grower Reference Panel enter into a confidentiality agreement due to their exposure to commercially sensitive material.

Target Pricing Committees
Each mill area is able to establish a Collective Forward Pricing Pool (please see Choices on page 6 for more information). A committee of growers may be established in each area to set target pricing levels. MSF Marketing provides these Target Pricing Committees with general market information, as well as regular hedge position updates.



The Grower Reference Panel meets quarterly

Accurate laboratory testing of sugar content in cane

How is cane priced?

The Cane Price is determined using a formula that is based on the sugar content of your cane (CCS) and the value of that sugar on the world commodity market. Cane prices are therefore strongly influenced by international sugar prices.

The price paid by MSF Sugar to its contracted growers is determined using the following formula:

Cane Price = Final Sugar Price × 0.009 × (CCS – 4) + Constant

Cane Price
The price of cane in Australian dollars (AUD) per tonne paid to growers during the milling season.

Final Sugar Price
The price of raw sugar in AUD per IPS tonne.

IPS – International Polarisation Scale taking into account futures, premiums and costs.

0.009
An average sugar recovery rate – an industry standard based on 90 tonnes of standard quality sugar recovered for each 100 tonnes of CCS.

CCS
Commercial Cane Sugar – the recoverable sugar in cane expressed as a percentage.

This is relative CCS as defined in your Cane Supply Agreement.

4
A one-third share of the CCS – an industry standard based on a one-third to two-thirds ratio split of CCS at 12%, where two-thirds goes to the grower and one-third to the miller.

Constant
Expressed in AUD per tonne of cane – based on a series of adjustments made over time to reflect changed conditions.

This is detailed in your Cane Supply Agreement.

The Final Sugar Price is the element of the Cane Price Formula that represents the most significant volatility, and therefore risk for the grower.

The two significant components of the Final Sugar Price are:

ICE Futures Sugar Pricing Pools
Sugar futures price expressed in AUD per IPS tonne.

ICE – InterContinental Exchange, Inc. – An American network of exchanges and clearing houses for financial and commodity markets.

Shared Pool
Direct and indirect revenues and costs associated with managing the pools and other marketing costs expressed in AUD per IPS tonne.

Under the Cane Supply Agreement, growers can choose MSF Marketing, or an alternative, as their Pool Manager to establish the Final Sugar Price.

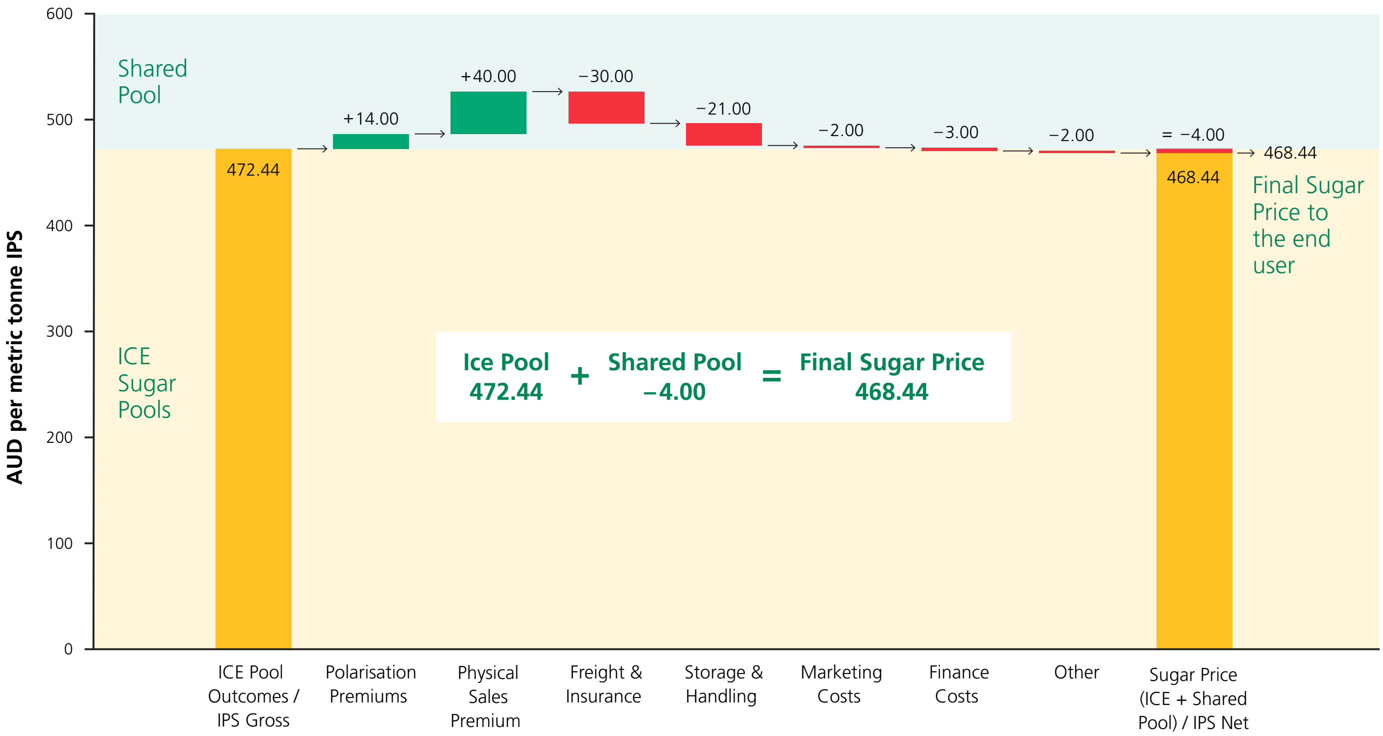
Establishing a Final Sugar Price

The Final Sugar Price is a key component of the cane price formula.

The two significant components of the Final Sugar Price are:

- ICE Futures Sugar Pricing Pools – sugar futures price expressed in AUD per IPS tonne.
- Shared Pool – direct and indirect revenues and costs associated with managing the pools and other marketing costs expressed in AUD per IPS tonne.

Example of the Final Sugar Price:



ICE Futures Sugar Pricing Pools
Growers are offered participation in a wide range of ICE Futures Sugar Pricing Pools, which all aim to maximise the value of the ICE Futures Sugar Pricing Pools, expressed in Australian dollars and included in the Final Sugar Price.

Sugar futures are traded on the InterContinental Exchange (known as ICE), which is one of the world's largest futures exchanges. Sugar futures are expressed in US cents per pound (US c/lb) and are traded for future delivery.

Most ICE Futures Sugar Pricing Pools are made up of Sold ICE 11 Sugar Futures, which is the futures contract generally used for price discovery for world raw sugar prices, and Foreign Exchange Contracts, which convert the futures from USD into AUD.

All growers will also participate in the US Quota Pool, which is the MSF Sugar share of US Quota allocated, and this Pool includes Sold ICE 16 Sugar Futures and Foreign Exchange Contracts. The US domestic sugar price is at a premium to world prices, and the Quota allocated to all Australian mills is usually 2.5% of total production.

The Sugar Futures price, expressed in AUD, is converted to a value per IPS tonne using the IPS Conversion Factor. The IPS Conversion Factor adjusts for the price for the polarisation differential from expected polarisation produced to 98.95 degrees, to create a common pricing specification across all mills and regions. The IPS Conversion Factor used by MSF Marketing when quoting prices or pool estimates is usually 1.037. See the example calculation opposite.

MSF Marketing provides growers with the opportunity to allocate their Cane Pay Sugar (underlying sugar exposure) to multiple ICE Futures Sugar Pricing Pools. More information can be found on page 6 outlining grower's choices.

Shared Pool
Growers who choose MSF Marketing as their Pool Manager, as well as MSF's Mill Margin Sugar, participate in the Shared Pool. The Shared Pool contains physical premiums, which are net of all costs associated with managing the pools and other marketing costs and is expressed in AUD per IPS tonne.

The key components of the Shared Pool are:

- Premiums to ICE Futures achieved in the physical raw sugar sale.
- Polarisation premiums paid for raw sugar delivered above 96 degrees pol.
- Direct costs associated with physical sugar supply – e.g. storage, handling and freight.
- Costs of running the marketing program, e.g. finance, bank fees, brokerage and marketing fees.

Most of the items in the Shared Pool are denominated in USD and need to be converted into AUD per IPS tonne.

Physical raw sugar sales are generally negotiated as a differential to ICE Futures delivered to the buyer's home port, and the differential is usually a premium, and is therefore described in the Shared Pool as 'Premiums to ICE Futures achieved in the Physical Raw Sugar Sale'. Shortly before delivery takes place, MSF Marketing and the buyers enter into a futures transaction that establishes the futures price used in the physical transaction.

Sample calculations and conversions:

Sugar Futures AUD per IPS tonne = [**Sold Sugar Futures** US cents per lb x **2,204.623** lbs to kgs] ÷ **AUD : USD** exchange rate ÷ **1.037** IPS conversion

Example:

16.00 US c/lb × **2204.623** = **USD352.74** per tonne actual

USD352.74 per tonne actual ÷ **0.7200** (AUD:USD exchange rate) = **AUD489.92** per tonne actual

AUD489.92 per tonne actual ÷ **1.037** (IPS conversion) = **AUD472.44** per tonne IPS

This conversion table shows the impact of the ICE Futures Sugar Price and the Australian dollar when calculating a sugar futures price, expressed in AUD gross per IPS tonne, as part of the Final Sugar Price.

	ICE Futures Sugar Price (US c/lb.)				
AUD	**12.00**	**14.00**	**16.00**	**18.00**	**20.00**
0.8500	300	350	400	450	500
0.8000	319	372	425	478	531
0.7500	340	397	454	510	567
0.7000	364	425	486	547	607
0.6500	392	458	523	589	654
0.6000	425	496	567	638	709

This conversion table shows the estimated impact of the gross Final Sugar Price and CCS on the price of cane (excluding constant).

	Final Sugar Price per MT IPS				
CCS	**350**	**400**	**450**	**500**	**550**
11.0	22.05	25.20	28.35	31.50	34.65
11.5	23.63	27.00	30.38	33.75	37.13
12.0	25.20	28.80	32.40	36.00	39.60
12.5	26.78	30.60	34.43	38.25	42.08
13.0	28.35	32.40	36.45	40.50	44.55
13.5	29.93	34.20	38.48	42.75	47.03
14.0	31.50	36.00	40.50	45.00	49.50
14.5	33.08	37.80	42.53	47.25	51.98
15.0	34.65	39.60	44.55	49.50	54.45

Choices

Growers are offered participation through allocation of Cane Pay Sugar into a wide range of ICE Futures Sugar Pricing Pools, which all aim to maximise the value of the ICE Futures Sugar Pricing Pools, expressed in Australian dollars, included in the Final Sugar Price.

Pool allocations can occur anytime after the required agreements are completed and up to three (3) seasons in advance for Forward Season Pools, with In-Season allocations usually made in March of the crush year.

There is also a compulsory allocation of US Quota Pool, which usually receives a premium to world sugar prices and represents approximately 2.5% of the Cane Pay Sugar exposure.

All Cane Pay Sugar not allocated into the Forward Season Pools, In-Season Pools or the US Quota Pool will be automatically allocated into the Default Pool, which also manages production risk for all MSF Marketing exposures.

All Cane Pay Sugar, as well as Mill Margin Sugar, will be adjusted by the outcome of the Shared Pool before determining the Final Sugar Price for the cane price formula.

As allocations are made before actual cane production is known, an estimate of the Actual Cane Pay Sugar available to be allocated to Forward Season and/or In-Season Pricing Pools is provided at various stages leading up to the crush, calculated using 5-year average historical production.

The maximum commitment of the Actual Cane Pay Sugar estimate as at 1 January, excluding US Quota is:

- Current season (C) 60%
- Current season plus 1 year (C+1) 60%
- Current season plus 2 years (C+2) 50%
- Current season plus 3 years (C+3) 40%.

Maximum limits are often referred to as Production Risk Exposure Limits (PREL) because they are designed to reduce the risk of being over-committed or over-hedged.

More information on pools can be found in the Pool Terms, which MSF Marketing makes available to growers at the commencement of the allocation period of each pool.

MSF Marketing provides regular updates on Pool Mark To Market (pool estimate based on remaining exposures revaluated at current market) at **www.msfsugar.com.au**

The Final Cane Pay of each season is based on each grower's allocation. The Sugar Price Report – Final will outline the Final Pool Value and the Cane Pay Sugar allocated to each pool.

	Compulsory Pools	Optional Pools	Default Pools
Minimum and Maximum Quantity	**Maximum of 60% of 5-year average + US Quota**		**Minimum of 35% of 5-year average**
ICE Futures Sugar Pool Choices	**US Quota Pool**	**Forward Season** • Individual Grower Pricing • Regional Collective Forward Pricing **In-Season** • Guaranteed Floor • Seasonal Pool	**Late Season Pool** • Production Buffer • All Cane Pay Sugar produced, less US Quota and Optional Pools
Shared Pool	**Physical Premiums less costs** • All Cane Pay Sugar is adjusted for the Shared Pool outcome		

$$\text{Actual Cane Pay Sugar} = \left[\text{Tonnes of Cane} \times 0.009 \times (\text{CCS} - 4)\right] \div \text{IPS Conversion Factor}$$

Actual Cane Pay Sugar
Underlying Sugar Exposure is expressed in tonnes actual.

Tonnes of Cane
The total volume of cane supplied by the grower for the season.

CCS
Relative CCS as defined in your Cane Supply Agreement.

IPS Conversion Factor
The factor to convert tonnes of actual sugar produced by MSF Sugar to IPS tonnes.

Pool	Type	Minimum allocation	Optional/ compulsory	Committed	Pricing decision maker	Allocation period	Pricing period	General comments
US Quota	Compulsory	No	Compulsory	No	MSF	Not applicable		Generally 2.5% of total exposure. US Quota trades at a premium to world prices, as it is a protected market.
Individual Pricing Pool	Forward Season	Yes – 50.8 tonnes actual sugar	Optional	Yes	Individual grower	Up to 3yrs forward	Up to 3yrs forward until Mar. of crush year	Priced in AUD/mt actual. Participation by placing orders. 50.8mt lots (same as 1 futures contract).
Regional Collective Forward Pricing Pool	Forward Season	No	Optional	Both	Target Pricing Committee	Up to 3yrs forward	Up to 3yrs forward until Feb. of crush year	Although in most cases is committed, this pool can be uncommitted. Regional Pools. Forward pricing.
Seasonal Pool	In-Season	No	Optional	Yes	MSF	March of crush year	Apr. of crush year to Mar. of next year	In-Season discretionary pool. Ability to price more than the Late Season Pool in the early stages of the season.
Guaranteed Floor Pool	In-Season	No	Optional	Yes	MSF – defined return	March of crush year	Apr. of crush year to Mar. of next year	Guaranteed minimum price, with 50% participation in beneficial moves above the strike price.
Late Season Pool	Default/ production buffer	No	Compulsory	No	MSF	Not applicable	Apr. of crush year to Mar. of next year	Default/production buffer pool. Prices most of the exposure after the middle of the crush, due to production uncertainty.

Raw sugar being loaded for export

Documentation

Key agreement and supplementary information for participation in the MSF Marketing Pricing & Pooling Model:

Cane Supply Agreement (CSA)
An existing CSA must be in place prior to participating in the MSF Marketing Pricing & Pooling Model. A CSA outlines all of the conditions of cane supply.

Grower Pricing Agreement (GPA)
A GPA is a master agreement and outlines all standard terms and conditions relating to the MSF Marketing Pricing & Pooling Model. A GPA is required when nominating a Pool Manager and allocating Cane Pay Sugar to Optional Pools.

Pool Terms
Pool Terms outline the specific terms and conditions that relate to each pool.
MSF Marketing makes the Pool Terms available to growers at the commencement of the allocation period of each pool.

Cane Pricing Guide *(this document)*
The Cane Pricing Guide is designed to provide growers with information on their available choices and to explain how cane prices are calculated.

Final Sugar Price Calculation Procedures
The Final Sugar Price Calculation Procedures documents the methodologies, and where applicable underlying principles, that MSF Marketing is to follow when calculating the sugar price used when determining a grower's cane price. The Final Sugar Price Calculation Procedures is made available to various grower representative committees, including the Grower Reference Panel, as well as the auditor appointed at the conclusion of each season.

MSF Sugar provides growers with assistance to maximise their cane production

Frequently asked questions

Is this Guide for growers who have nominated an Alternative Pool Manager?
Although there is some useful information about how cane is priced in this Guide, the alternatives for setting the Final Sugar Price will vary when an Alternative Pool Manager is selected. The Alternative Pool Manager is likely to provide a similar Guide to assist in decision making. Growers who select an Alternative Pool Manager via the GPA will be subject to the Alternative Pool Manager's pool terms.

Why would I participate in a Commitment Pool?
Growers usually participate because they want the opportunity to influence the price they receive for their cane. All Cane Pay Sugar not allocated to a Committed Pool defaults into the MSF Late Season Pool, which also serves as the Production Buffer Pool. This pool is typically priced towards the end of the crush when there is more confidence in the pool exposure, and therefore if you have all of your Cane Pay Sugar in this pool, you will not have much pricing prior to the commencement of the crush.

What is Cane Pay Sugar?
Cane Pay Sugar represents your underlying share of the sugar produced from cane you supply and is the basis of your cane payment.

What are my obligations if I participate in a Commitment Pool?
Individual ICE 11 and Collective Committed ICE 11 Pricing Pools require you to commit a fixed quantity of Cane Pay Sugar. You must meet your obligation to supply.

What happens if I cannot supply all of the committed cane?
Any financial consequences, which may be positive or negative, of not meeting your commitment (obligation to supply) will be for your account. Financial consequences will be calculated on the basis of 'replacement cost or benefit'. For example (see table below) where:

- ABC Pty Ltd's 5-year average sugar production is 400mt.
- ABC Pty Ltd allocates 240mt (60% maximum) to the Collective Forward Pricing Pool.
- The Collective Forward Pricing Pool's final price is $460/mt.
- ABC Pty Ltd has a major production event and only produces 180mt, and needs to Close Out the Commitment Short Fall.

As a Committed Pool participant, will I be impacted if another Committed Pool participant does not meet their cane quantity obligations?
No. Any consequences of not meeting cane quantity obligations are for the account of the grower concerned.

What happens if I sell my farm and I have made a commitment?
You can transfer your commitment/pricing to the new owner provided all parties agree and sign the required documentation. Otherwise, any financial consequences (positive or negative) of not meeting your commitment will be for your account.

Can I transfer my commitment/pricing to another grower?
Yes, you can transfer pricing and therefore commitment to another grower, provided that all parties (including MSF Marketing):

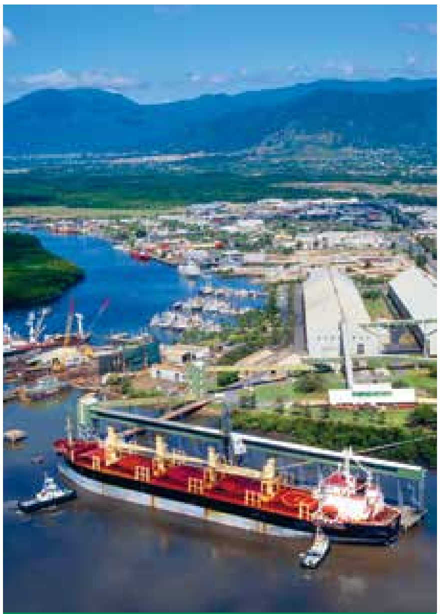
- are in agreement, and
- read and sign the required documentation.

Will other pricing pools be available in the future?
Yes, MSF Marketing works closely with the Grower Reference Panel to ensure that the most appropriate pools are available. Existing pools can be fine-tuned, new pools added and pools that receive little support may be removed.

Am I limited to how much Cane Pay Sugar I can commit?
Yes. Maximum pricing limits are applied to your estimated Cane Pay Sugar to reduce your risk of overpricing. Therefore, you are limited in the tonnage of Cane Pay Sugar you are able to commit.

How is estimated Cane Pay Sugar calculated?
The steps involved in calculating the tonnage of Cane Pay Sugar that you can commit (Production Risk Exposure Limit or PREL) are as follows:

- Your cane production is estimated using your 5-year average production adjusted for changes in area under cane (as agreed between you and MSF Marketing).
- Your CCS is estimated using your 5-year average Relative CCS.
- Your Cane Pay Sugar estimate is calculated using the formula shown on page 7 to determine the 5-year average.


Cairns Bulk Sugar Terminal

	Committed (mt)	Expected delivery prior to event (mt)	Actual delivery (mt)	Short Fall (mt)	Close out Profit if buy back price is $430/mt	Close out Loss if buy back price is $500/mt
Collective Forward Pricing Pool	240mt	240mt	180mt	60mt	$30 per mt	$40 per mt
Late Season Pool	0	160mt	0	0	0	0
Total	240mt	400mt	180mt	60mt	Profit $1,800	Loss $2,400

Glossary of terms

The glossary of terms covers phrases that are used in the Guide, as well as others that relate to general marketing activity.

Advance Payments	The system of progressive payments by MSF Marketing to grower suppliers throughout the year.
Against Actuals (AA)	An AA is a pre-arranged Futures transaction between a Buyer and Seller of the physical sugar, whereby the Buyer of physical sugar receives Sold Futures and the Seller of physical sugar receives Bought Futures. The futures price agreed in the AA is then applied to the Physical Premiums to determine a final price for invoicing.
Allocation Period	The Allocation Period, determined in accordance with this document and the Pricing Pool Terms, is the period within which the Grower may submit an Election Notification to allocate Cane Pay Sugar for the Relevant Season to a Committed ICE 11 Pool.
Alternative Pool Manager	Pool Manager other than MSF Marketing.
Arbitrage	The simultaneous purchase and sale of similar commodities (or same commodity) in different markets to take advantage of price discrepancy.
AUD	Australian dollars.
Back-wardation	Market situation in which the futures prices are progressively lower in the distant delivery months.
Basis	The difference between the cash or physical price and the futures price.
Bear	One who expects a decline in prices.
Bear Spread	In most commodities and financial instruments, the term refers to selling the nearby month and buying the deferred month to profit from the change in the price relationship.
Bid	An offer to buy a specific quantity of a commodity at a stated price. Opposite of ‘offer’.
Broker	A company or individual that executes futures and options orders on behalf of financial and commercial institutions and/or the general public.
Bull	One who expects a rise in prices.
Bull Spread	In most commodities and financial instruments, the term refers to buying the nearby month and selling the deferred month to profit from the change in the price relationship.
Cane Payment	Payment by MSF Marketing to the grower supplier for cane. Payment is made via an advance payment system with the final price paid being determined by the Cane Price Formula under the relevant Cane Supply Agreement.
Cane Pay Sugar	The nominal grower supplier share of the sugar produced from cane supplied, upon which Cane Payment is based.
Cane Price	Price received for cane.
Cane Price Formula	Formula used to calculate the Cane Price.
Cane Price Guide	This document, for the use of growers who nominate MSF Marketing as their Pool Manager.
Cane Supply Agreement (CSA)	An agreement between a grower supplier and a mill to supply all cane produced to that mill under a set of terms and conditions.
Cash or Physical Market	Market for delivery of, and payment for, physical commodities.
Commencement of Pricing	Any future-dated pool (Forward Pricing Pools) will become available for grower pricing from three (3) seasons prior to the commencement of the harvest relating to that pricing.
Commercial Cane Sugar (CCS)	An estimate of sugar yield from cane supplied.
Committed Cane	Cane that has been allocated to a specific Pool, which must be supplied.
Contango	Market situation in which prices are progressively higher in succeeding delivery months than in the nearest delivery months. Sometimes called a ‘Carry-charge market’.
Cost and Freight (CFR)	An international term for Cost and Freight where the seller pays for the cost and freight necessary to move the commodity to the buyer’s nominated port. Risk transfers to the buyer once the commodity is loaded at port of origin. Sometimes called ‘C&F’.
Committed Sugar Pools	A tonnage of raw sugar a supplier must make under the terms of their nomination to a particular pool. This is a contractual commitment and must be supplied. Committed pools include all forward pricing pools and some in-season pools.

Default Pool	For a Relevant Season, the Pricing Pool of a Pool Manager which is neither the US Quota Pool nor a Committed ICE 11 Pool and, if there is more than one such Pricing Pool, that which is identified as the Default Pool in the relevant Pricing Pool Terms.
Final Sugar Price	Price for Sugar expressed in AUD per IPS tonne contained in the Cane Price Formula.
Free on Board (FOB)	An international term of sale that means the seller completes their obligation of delivery once the commodity is loaded on the vessel at the port of origin.
Forward	In the future.
Fundamental Analysis	A method of anticipating future price moves by studying the supply and demand information.
Futures Contract	A legally-binding agreement made on the futures exchange to buy or sell a commodity at a time in the future. Futures contracts have standardised terms and conditions – the only element that changes is the price.
Forward Pricing Pool	A cane pricing mechanism under which an individual grower, or a collective of growers, can commit to a pool that has the ability to price up to three (3) years forward.
Good 'Til Cancelled (GTC)	Good 'Til Cancelled orders remain in place at a set price until the investor decides to cancel the order or the trade is completed.
Grower	A supplier of cane to MSF Sugar Limited under a Cane Supply Agreement.
Grower Pricing Agreement (GPA)	An agreement that sets out the terms and conditions under which MSF Sugar Limited will provide access to Committed Pools.
Grower Reference Panel (GRP)	Panel of Regional grower representatives with the purpose to provide a mechanism to facilitate the practical implementation of transparency measures; specifically quarterly Marketing Plan preview and review meetings and reporting of Pool Audit outcomes.
Hedger	An individual or company owning, or planning to own a cash commodity (e.g. corn, soybeans, wheat, bank bills, wool, beef etc.), and are concerned that the cost of the commodity might change before either buying or selling it in the cash market. A hedger achieves protection against changing cash prices by purchasing (or selling) futures contracts of the same or similar commodity and later offsetting that position by selling (or purchasing) futures contracts of the same quantity and type as the initial transaction.
ICE Sugar Pricing Pools	Pricing Pools that contain Sugar Futures Contracts expressed in AUD per IPS tonne.
ICE No.11 Pools	Pools where the pricing mechanism is directly related to the ICE No.11 futures contract. This includes all pools except the US Quota.
ICE No.11 Pool Price	The ICE No.11 Pool price represents the price at the 'ship's rail'. In effect it is the combination of No.11 futures converted into AUD per tonne prior to any allocation of the Shared Pool.
In-Season Pool	A pool that only commences operation the day following the Allocation Close date for a particular season and remains in operation for the duration of the crush year.
International Polarisation Scale (IPS)	International Polarisation Scale is the price adjustment scale described in the rules of the Sugar Association of London. It defines incremental price premiums applied to sugar above 96 degrees polarisation.
IPS Conversion Factor	A factor used according to the International Polarisation Scale to convert Tonnes Actual to Tonnes IPS in a Relevant Season. The IPS Conversion Factor is determined by reference to the specifications of sugar supplied in that Relevant Season.
Last Trading Day	The final day when trading may occur in a given futures or options contract month. Futures contracts outstanding at the end of the last trading day must be settled by delivery of the underlying commodity (as is the case for ICE No.11) or by monetary settlement.
Long	Means that you have bought, or own, something and haven't yet sold it.
Nearby Month	The futures contract closest to expiration, also referred to as 'spot month'.
Nomination Date	The last Business Day in December in the year preceding the Relevant Season, or such other date as the Mill Owner notifies to the Grower in writing from time to time.
Minimum Price Fluctuation	See 'tick' as defined in the Glossary.
MSF Marketing	Refers to MSF Marketing Pty Ltd (ACN 147 832 853), which undertakes marketing activities for MSF Sugar, including Pool Management.
MSF Sugar	Refers to the legal entity undertaking the milling activities under the Cane Supply Agreement (CSA).

Glossary continued

Offer	An indication of willingness to sell at a given price. Opposite of 'bid'.
Open Interest	The sum of futures contracts to one delivery month or one market that has been entered into and not yet liquidated by an offsetting transaction or fulfilled by delivery.
Physical Premium	Premiums to ICE Futures achieved in the Physical Raw Sugar Sale.
Polarisation Premium	This is a price adjustment to a sales contract that reflects the value of polarisation in the raw sugar supplied above 96 degree polarisation. Sugar traded on the ICE No.11 contract is for 96 degrees polarisation.
Pool Manager	Entity nominated to manage the pricing and physical sales of Cane Pay Sugar to establish a Final Sugar Price.
Pricing & Pooling Model	Choices offered to growers who nominate MSF Marketing as their Pool Manager.
Pricing Window	The timeframe over which pricing decisions are made.
Rally	An upward movement in prices following a decline.
Season Information Date	The last Business Day in February in the year of the Relevant Season, or such other date as the Mill Owner notifies to the Grower in writing from time to time.
Shared Pool	The notional pool managed by a Pool Manager to which various premiums (not being sales revenue derived from ICE No. 11 or ICE No. 16 raw sugar futures contracts), costs, losses and financial gains are pooled and then allocated to Pricing Pools managed by that Pool Manager.
Short	This means you have sold something without having ownership of the item(s), or you have a requirement for the item(s) without having purchased it.
Spot Month	See 'nearby month'.
Sugar Price	Means the price of a relevant pool or pricing mechanism per tonne of IPS sugar as announced by the various Pool Managers.
Target Price Committee	Committee of grower representatives that set target price levels for Cane Pay Sugar committed by Growers to a Collective Pricing Pool.
Target Pricing Levels	ICE No. 11 Sugar Futures Prices expressed in AUD per metric tonne targeted by placing Good 'Til Cancelled (GTC) Orders.
Technical Analysis	An appraisal of future price movements using historical prices, trading volume, open interest and other trading data to study price patterns.
Tick	The smallest allowable increment of price movement for a contract. Also referred to as 'minimum price fluctuation'.
Tonnes Actual	An actual tonne of raw sugar.
Tonnes IPS	An IPS (International Polarisation Scale) tonne is a tonne of raw sugar equivalent to 98.95 polarisation. It takes more cane – or CCS – to produce an IPS tonne than a tonne of (say) 96 pol sugar because a tonne of IPS sugar has fewer impurities in it (less molasses). However, a higher pol sugar (98.95 pol is higher quality than 96 pol) is more valuable to a refiner. This additional value is embedded in the premium received in the Sugar Price.
Volume	The number of purchases or sales of a commodity futures contract made during a specified period of time, often the total transactions for one day.

Notes

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