Wilmar International Limited
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20 December 2016

The Honourable Tim Nicholls MP
Leader of the Opposition
Mineral House
41 George Street
Brisbane Qld 4000

Mr Dale Last MP
Burdekin Electorate Office
Shop 30 Centrepoint Arcade
Ayr Qld 4807

By email: reception@opposition.qld.gov.au

Dear Messrs Nicholls and Last

Thank you for your letter of 16 December regarding cane supply agreements in Queensland. I have followed closely the developments over the past two years and support our Australian management team in its efforts to conclude cane supply and sugar on-supply agreements.

I wish to assure you that having invested almost two billion dollars into the sugar business in Australia, it is in our utmost interest to ensure that our cane growers do well as if they don't, our mills will suffer badly if the growers decide to leave the industry. After we bought Sucrogen, we tried to work with Queensland Sugar Limited (QSL) to provide better service to the growers. It is only when we failed to work with QSL that we decided to terminate the arrangement with them.

I am equally frustrated that we do not yet have cane supply agreements with all our 1,500 growers for 2017. We have tried our best to conclude the agreement sooner but failed to expedite the negotiation despite our best effort. However, there is no reason why any grower providing cane to Wilmar need be without a cane supply agreement (CSA) for 2017 at this time, nor without the ability to forward price. No Wilmar grower is denied a CSA or forward pricing by Wilmar. Both have been offered to all growers since July this year and we have promoted them to growers regularly.

Even before this year, in 2014-15, we offered all growers a temporary forward pricing arrangement for 2017 to give them certainty through the CSA negotiating period. Those who took up that offer have been able to forward price for 2017 even though they may not have a cane supply agreement finalised.

Almost 200 growers have already signed independent and collective-endorsed cane supply agreements for 2017-2019 and committed almost 2.5 million tonnes of cane to Wilmar next season. This is proof that grower choice exists and is being exercised. Our CSAs comply with grower choice legislation and two grower collectives (one in Proserpine, another in the Herbert River district) have successfully concluded agreements for their members and we have reached agreement in principle with a third collective in the Burdekin.

Growers who do not have a supply agreement with Wilmar have most likely chosen to remain without an agreement on the recommendation of grower representatives who are participating in a campaign co-ordinated with QSL to gain QSL maximum commercial advantage over Wilmar leading into 2017.

It is a fact that QSL and some grower organisations are working together against Wilmar. This is confirmed by public admissions of QSL management and some grower representatives who have declared openly their intention to exert maximum public and political pressure to force Wilmar to accept QSL's terms – terms that we believe are unreasonable and uncommercial. It has become apparent to us that QSL is having significant

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challenges in making a transition from a protected single desk marketer to operating on a commercial basis on terms that are considered standard for others in the global sugar industry.

Several times during the past two years, unhelpful external intervention at critical stages has frustrated our negotiations with growers and with QSL by raising an expectation that an alternative, political path was open and that it would result in an imposed commercial outcome. This intervention disrupted the lawful commercial process and ensured that it would not produce a speedy outcome.

You ask why Wilmar is the only milling company yet to conclude an on-supply agreement with QSL. I wish to assure you that the sugar sales agreement we provided QSL in July this year is based on standard global sugar industry terms. While QSL have steadfastly refused to negotiate on the basis of these terms, Wilmar has made significant and ongoing concessions in an attempt to accommodate QSL's inability or unwillingness to accept commercially reasonable terms. We are unable to accept the outstanding QSL's terms because we have to take a reasonable and responsible approach to managing risk.

Most significantly, unlike other millers, we have not been prepared to accede to the following terms demanded by QSL:

- impose sugar quality standards that we would fail to meet more than half the time and in circumstances where QSL had the right to reject sugar for non-compliance;
- arbitrarily decide what price it will pay us for the raw sugar supplied. It is standard industry practice that the price of the sugar should be based on the market price on the date the sugar is transferred to us;
- take title to our sugar without paying for it in full, instead paying us a down-payment of approximately 60% determined at QSL's discretion with the balance paid as and when QSL decided appropriate;
- require Wilmar to provide the benefit of our proprietary IT systems, our people and our intellectual property to deliver its own forward pricing, pooling and advance products and services to growers choosing it over us, and for us to do all this without cost;
- require Wilmar to accept the liability for QSL's own grower counterparty risk as a GEI sugar marketer; and
- have complete control of Queensland's sugar terminals and have free run of stockpiles that includes our sugar, and those nominated to us by growers, in order to cherry-pick and blend to QSL's commercial advantage.

Wilmar manufactures about 60% of Queensland's raw sugar and so in terms of size and complexity, the commercial issues and risk are greater for Wilmar than other milling companies. In 2010 QSL over hedged and suffered a loss of $105 million which it then passed on to the industry. We are still engaged in litigation with Burdekin growers who hold us accountable for the loss which was due to QSL's poor management. Growers have not taken action against any other milling company for QSL's hedging losses highlighting the additional risks imposed on us as Queensland's largest raw sugar milling company.

Contrary to the advice you have been given, conclusion of an on-supply agreement between Wilmar and QSL is not essential for growers and Wilmar to sign cane supply agreements that include choice of marketer later and commence forward pricing. We have made it possible for growers to act now and reserve their marketing choice rights until QSL has executed a sugar sales agreement with us. Once we have finalised an agreement with QSL, growers may transfer their choice of marketer and forward pricing to QSL if QSL agrees.

I appreciate your desire for fair dealing. I am also an advocate for fair dealing and hope you can encourage it by asking the parties involved to focus the negotiation on facts without resorting to political pressure and rhetoric.

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Please be assured that we have gone to great lengths to ensure that we comply with the new laws and that we are offering a very fair deal to growers and QSL. We are a reputable Group and pride ourselves on fair play and have no reason to try and take advantage of the growers.

I wish to apologise that due to my other commitments I am not able to travel to Queensland at this time. However, my Australian colleagues are fully authorized to negotiate the agreement with QSL and with grower collectives. I appreciate your interest to find a quick conclusion to this matter and look forward to meeting you in the near future.

Yours sincerely

Kuok Khoon Hong
Chairman and CEO

Cc
Prime Minister, Malcolm Turnbull
Deputy Prime Minister, Barnaby Joyce
Premier of Queensland, Annastacia Palaszczuk MP