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UPDATE

2017 MARKETING CHOICE

9 December 2016

By Greg Beashel, QSL Managing Director and CEO

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Dear Grower,

I had the opportunity to speak with growers in the Herbert River and Burdekin districts this week to provide them with an update on our On-Supply Agreement (OSA) negotiations with Wilmar.

There were plenty of questions, particularly about how much longer it would take to finalise an agreement with Wilmar and why we wouldn't accept Wilmar's current proposal.

While Wilmar regularly describes their OSA terms as 'reasonable', we don't believe this is the case, particularly for the growers who will bear the impacts of the arrangements Wilmar is seeking. Once I explained to Herbert River and Burdekin growers the issues in dispute, there was overwhelming support for QSL to stand up to Wilmar and seek resolution on these matters.

Our key issues with Wilmar's current proposal include:

Sugar quality: Wilmar is unwilling to provide sufficient assurances around the quality of sugar it delivers. They continue to insist QSL must accept sugar that does not meet the polarisation specification in their agreement, rather than QSL being entitled to request a replacement quantity of compliant sugar. The potential impacts for growers include the likelihood of lower premiums for that lower quality GEI Sugar supplied by Wilmar on their behalf.

Production of other brands: Wilmar is unwilling to produce other brands of sugar for QSL, even if Wilmar is producing another brand itself and QSL is prepared to pay the reasonable costs of manufacture. This means that growers choosing QSL as a marketer could potentially be locked out of higher-returning markets that require other brands of sugar.

Tax implications: Wilmar has proposed a complicated payment mechanism which QSL is concerned may have adverse tax implications for growers. This system may also impact on the timing of grower payments, meaning growers who choose QSL could be paid later than those who choose to market their Grower's Economic Interest in sugar (GEI Sugar) with Wilmar.

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Mill risk: QSL believes that when a grower is unable to deliver committed sugar to QSL due to a mill breakdown, Wilmar should be liable for the loss suffered by QSL and the growers we represent. Wilmar is not willing to take responsibility for its own mill performance

Operations: Wilmar are seeking indemnities and constraints on their own deliveries to QSL in relation to storage issues, with no reciprocal arrangements for Wilmar's sugar.

While QSL is very keen to progress an OSA, we believe Wilmar's current OSA proposal brings unacceptable new costs to the growers who will use it. After meeting on Monday, both QSL and Wilmar now have actions to complete to help resolve the outstanding matters, but we continue to believe that this process and the OSA in general could be more effectively progressed if growers were involved in discussions.

Wilmar's proposed Transitional Pricing Agreement

Last week Wilmar announced that it was working on a proposal for a transitional grower choice arrangement. We have not seen this proposal and so cannot comment upon it in detail, but we urge growers to make sure they understand the terms of any such agreement and what it locks them into.

While QSL would do its best to accept novations of forward pricing from growers in such an agreement, there may be costs associated with these kinds of transfers. Pricing would also need to be in an appropriate format, including QSL's 1:2:2:1 pricing ratio, to minimise any potential costs.

Regards,

Greg Beashel
QSL Managing Director and Chief Executive Officer