

Sugar Restructure: the Ties that Bind and Gag*By Suzi Moore*

Australia has been abuzz with interest in the takeovers and makeovers in its milling sector – a sign of a healthy, dynamic (and by that you can read fast-changing) industry, but we will come back to that.

The huge activity that is heading towards an extensive restructure of the milling sector is symptomatic of something larger: something industry-wide. Something has rattled the Aussie industry so much that age-old nemeses have joined forces on matters of industry significance (while you can be sure that they will remain fiercely at each other's door on local issues – the reason they were established in the first place).

What is important here is the desire of the industry to develop a single strategy that can be used as a base for all industry players. So realistically while what is to come is not new – it is an extension of 20-plus years of activity – but what will be new is the pace at which it can be achieved. Realistically it all boils down to continually driving down costs while reducing volatility of price and volume.

Enter the Australian Sugar Industry Alliance – ASA for short (no, the laid-back Aussies didn't forget "Industry" in the acronym, but decided its namesake's proximity to a neighbouring land mass would cause undue confusion which could be easily remedied). But there is nothing laid-back about the group itself, which after a slow start has had an injection of new blood, and a year into its formation, we are seeing the group making up for lost time.

What's driven ASA to get rolling? It is as simple and difficult as industry profitability. And that was the topic for a strategic session it ran in October for which an Australian industry report will be finalised at the back end of the year.

It is the sign of the times when groups who fiercely look after their own interests on the one hand, are happy to unite on matters 'for the greater good' (read: matters of national significance such as trade, research and a united front against uninformed, unviable, governmental environmental pressure).

So in October, lead by independent strategy consultants, we saw all the players sitting around the table: peak sugarcane growers group Canegrowers; peak millers group the Australian Sugar Milling Council; sugar marketing body Queensland Sugar Limited; research and development groups Sugar Research and Development Corporation and BSES Limited, a handful of representatives from large milling interests, together with the National Farmers Federation and on the sidelines, voices from the banking, international trade and government sectors.

What brings fiercely competing interests around the table? That's easy: future growth, but more so, profitability.

For Australia, that would bring discussion to concentrate on three big three issues: increased production, increased asset utilisation and development of new products. Let's take a walk down that road.

Firstly, extra production. There is a barrage of ways of doing this, without necessarily having to plant out hectares of extra tonnage. Sugarcane likes a particular climate and geography and the crop is prevalent on the small area of the country's large land mass suited to growing the fibrous plant. There is some, but not loads, of potential area to expand planting.

But if you were a betting person, the odds are stacked in favour of an unprecedented acceleration in the uptake of the latest technology, new farming methods and systems.

Australia has already established its credentials worldwide as being from a strong research and development base. It has the strong foundations as that can be built on – either in the direction of genetically modified varieties and/or value added products or systems. While ethanol may well feature, more foreseeably it would factor alongside other projects. A focus could be given to ramping up the export of electricity back into the power grid and development of plastics or pharmaceutical products.

If nothing else, Australian Government climate change policy will force us into a change-sprint on the home stretch towards 2020. Growers, industry, government and the general consumer public will continue to play a greater and greater role, applying increasing pressure that sugarcane make a positive and increasing economic and social contribution to Australia. Sustainable growth and ability to compete successfully in the global environment will require capitalisation and support of the best of Australia's sugarcane related research and development.

The industry must demonstrate a competitive and attractive return on investment. It will also look at longer-term diversification of product ownership structures, locations and products which have the potential to generate sufficient additional revenue streams to offset the effect of cyclically deteriorating sugar prices.

So ASA is trying to birth as the single voice for issues and opportunities relating to the Australian sugarcane industry, but as the youngest child, all the other brothers and sisters who have years of serious commercial and influential runs on the board don't want to lose identity. But if ASA is indeed the chosen one, and the strategies decree it, maybe national players will shelve ego in favour of self-interest.

The other major direction of ASA has been to assist in setting process for research, and to restructure the industry research bodies (particularly BSES and SRDC) to achieve economies of scale.

With the head of research funder SRDC, Frikkie Botha, announcing that he will be leaving in the coming months to join on-the-ground research body BSES, the cogs already appear to be in motion. Surely this as much as anything highlights the need for industry to go back and review its research setting priorities – because that will get the mechanisms that are employed there to guide closer working relationships between R&D bodies rather than focusing on necessarily formalised structures.

Back to where the story started – activity within the milling sector. One might say the argy bargy in the run to take a stake in the soon to be demerged corporate mill, CSR, is a sign of the times. Last week, second largest Australian milling interest, Mackay Sugar Limited announced it would become a major shareholder in the soon to be demerged CSR Sugar and Renewable Energy business.

CSR certainly took many by surprise when it announced its latest plans for emerging its Sugar and Renewable Energy division. It will acquire Mackay Sugar's 25% stake in their joint venture refining business, but rather than paying out A\$100 million for it, Mackay Sugar will get an 8.77% interest in the (son of) CSR yet-to-be listed Sugar and Renewable Energy company. CSR aims to have the assets split from the greater conglomerate by March next year, using some of the A\$375 million it plans to raise through an entitlement offer.

Eddie Westcott, spokesperson for Mackay Sugar, says there were two major drivers behind the deal. He says restructuring would make it even more difficult to exit the business and the joint venture arrangements make financial sense. He says that Mackay, as a shareholder, will be able to participate in an expansion and potentially purchase more shares after the first year, but say at this point Mackay Sugar has not talked about the future potential of owning a controlling stake.