

# Sugar mill's battle against global push

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BRIAN CASSEY

Angelo Crema says that if local ownership doesn't work, he would prefer American ownership to Chinese

## Tully Mill is the subject of three takeover offers

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ANGELO Crema is a hard man. Half a century ago, his toughness on the rugby league fields around Tully in north Queensland saw him selected to represent the region, then Queensland and then Australia, running on in the green and gold against Britain in 1966 with the likes of Arthur Beetson.

Now, as a Tully cane farmer, he finds himself in the middle of an unruly scrum that is the latest battle in the fight of localism against globalisation.

"I just don't think it's an option to do nothing," Crema says.

"We have to move with the times. Grower control is a great principle, but I just don't think

they can make it work. And if the federal government lets the Chinese get it, we're in trouble. So I think we go with the Americans."

Crema is referring to the situation surrounding the sugar mill that he has supplied cane to all his life, Tully Mill, which was owned exclusively by local canegrowers until 20 years ago and is still part-owned by locals.

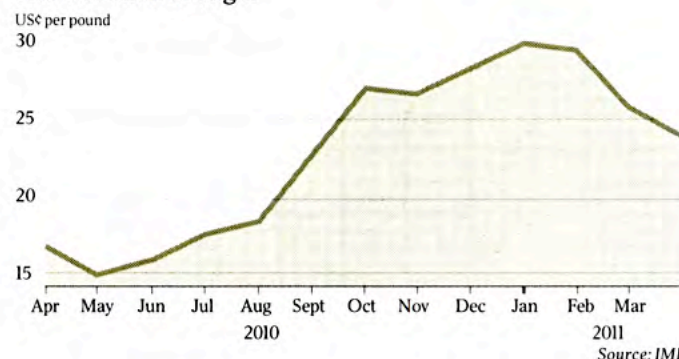
Having seen off one hostile takeover bid last year, it is the subject of three offers, one of which will almost certainly succeed.

At stake is more than the future of one mill. The hive of activity surrounding Tully comes at a time of rationalisation in the sugar mill sector, and whoever buys Tully, one of the largest mills, is expected to move on some of the others in north Queensland.

"We've got bidders to the left of us, bidders to the right of us," Crema says.

His observation is correct in an

## The direction of sugar



ideological sense as well. To the right is Bunge, a giant international agribusiness listed in the heart of capitalism on the New York Stock Exchange. Its tentacles have already spread into Australia in the flour milling business, and it has recently spent more than \$2 billion acquiring sugar mills in South America. It is now the world's second-largest sugar trader.

To the left is China National Cereals, Oils and Food Stuffs Corporation, or Cofco, fully owned by the Chinese communist government. Cofco would need the approval of the Foreign Investment Review Board, but Bunge would not.

And right in the centre is the third bidder, local company Mackay Sugar, epitomising Crema's comment about local control.

Mackay Sugar is a public company owned by canegrowers. It runs three mills around Mackay, but it has formed an alliance with the grower-controlled Mossman Mill north of Cairns near Port Douglas for the purposes of taking over Tully.

Mackay Sugar is still grower-owned and, in an industry where grower participation has a rich and long tradition, its pitch is that it will continue this tradition in modern times.

The corporate interest in sugar milling comes at a time when sugar prices are coming off a high.

When the federal government unveiled an assistance package in 2004, world sugar prices were about US6c a pound. For most of the past year they have been over US30c a pound, but have slipped back to about 24c a pound.

All three of the takeover offers are for \$41 a share, valuing Tully Sugar at \$126.7 million. But the

Continued on Page 24



# Sugar mill's globalisation fight

THE AUSTRALIAN, MONDAY, MAY 16, 2011  
www.theaustralian.com.au/business

Continued from Page 23

situation is expected to heat up in the next few weeks as the three proponents are expected to vary their offers to differentiate themselves from the other bidders. It could be more money or a scheme to keep the growers involved.

There are 26 sugar mills in Australia with 10 milling groups, but many think there is room for only three or four. There is already an international presence in the market, with Singapore company Wilmar buying seven mills further south from Tully from CSR's Sucrogen for \$1.75bn last year.

The industry is ripe for rationalisation — running a sugar mill is a fixed-cost business and the best way to achieve efficiencies and maximise profits is to get economies of scale.

Tully will come to a head this week when the 300 or so cane-growers like Crema meet in Tully Central to vote on whether to change the company's constitution to allow a single shareholder to accumulate more than 20 per cent. Once this is done, the competition will be on in earnest.

But even here, there's another complicating factor. The body that markets and sells 90 per cent of the Queensland sugar crop, Queensland Sugar, has been building up its own stake in Tully Sugar to 19.9 per cent.

QSL has already influenced events, using its voting power with Mackay Sugar — it owns about 4 per cent of the company — as the base to get 27 per cent of the vote in a February ballot to change the constitution. That was enough to defeat it — the measure needed 75 per cent approval.

QSL is a public company owned by Queensland's cane-growers and millers, but its participation has riled many of its shareholders. For over a century in Queensland, the entire sugar crop was sold by the state but as part of the reforms to the sugar industry in 2004, when prices were well down, QSL was given to the canegrowers and millers.

QSL chairman Allan Winney last week attended the Kingsman Asia Pacific Sugar Conference in Singapore, where he confirmed that QSL had had talks with all three of the interested parties.

"We have no preference for any particular buyer, local or foreign, and will take a decision based on the long-term interests of the Australian sugar industry," Winney says.

But Crema shows the sort of aggression towards QSL that he showed on the football field.

"What they've done is way outside their expertise or their charter. If they hadn't blocked that Bunge offer at \$41 a share, we'd have the money in the bank right now. And we need it round here now. There are blokes around Tully doing it very tough at the moment. What would these shiny

## 'I think giving it to the Chinese is just too far'

ANGELO CREMA  
CANE FARMER

suits from QSL know what's happening up here? Yasi didn't miss anyone in Tully."

Certainly, Tully and the area around it — mainly cane fields — was where Cyclone Yasi hit hardest when it crossed the coast in early February. Each year, Tully Mill crushes close to 2.5 million tonnes of cane, but the damage wrought by Yasi is such that this year the mill expects to crush only about 1.5 million tonnes.

Not that the takeover merchants are stuck on this point. The reasoning is that an event like Yasi is not frequent enough to take away the value of the mill. And the Tully mill is one of the larger ones in north Queensland. The production of each mill changes almost every year but Tully gets the title of Australia's biggest mill quite regularly.

The company looking over its shoulder at all this activity is Maryborough Sugar, which last

year tried a hostile takeover of Tully, but only offered \$27 a share.

Maryborough, through a complex deal with Bundaberg Sugar, picked up the mills to the immediate north of Tully, South Johnstone and Babinda, but closed Babinda in February this year.

The timing was terrible — it was less than a week after Yasi had gone through the area, and the mill was the biggest employer in the small town of Babinda.

But the allure of Tully suddenly becomes greater when the two mills to its north come into the picture. Bunge and Cofco would have the capacity to make an offer for the two mills, and Mackay Sugar makes no secret of its ambition to keep acquiring if it can.

"Why stop at two?" says Mackay Sugar chairman Andrew Cappello, a cane farmer. "The bigger the business, the more robust it will be. And we want to keep that element of grower control."

An added element is that Maryborough Sugar has a strong offshore element, with Thailand's Mitr Phol having a 19 per cent stake in the company, one of the few in the industry that is listed on the ASX. Mitr Phol has not made its intentions clear.

While the fate of these north Queensland sugar mills is being discussed in boardrooms around the globe, it's the views of the 300 or so cane farmers who own half of Tully Sugar that will decide the future of the old mill.

Crema's father grew cane, and his sons are taking over the property. Crema says that while the principle of grower participation is a good one, it doesn't work in the global market of 2011.

"I just don't think Mackay's got the money to put into the mill and the business, and then you don't know who's controlling it.

"And I think giving it to the Chinese is just too far.

"You don't know what would happen if we gave control of north Queensland sugar mills to the Chinese government.

"Personally I favour Bunge. Grower control sounds great but it doesn't work."