



CANEGROWERS ISIS

48 Churchill Street Childers 4660
PO Box 95 Childers 4660
Phone (07) 4126 1444 Fax (07) 4126 1902

16 April 2014

The Manager
Agricultural Competitiveness Taskforce
Department of the Prime Minister and Cabinet
PO Box 6500
CANBERRA ACT 2600

Agricultural.Competitiveness@pmc.gov.au

Dear Sir/Madam

Re: Agricultural Competitiveness White Paper Comments

CANEGROWERS Isis is the local organisation representing 200 sugarcane growers supplying the Isis Central Sugar Mill near Childers. The Isis Central Sugar Mill is grower owned and therefore the sugarcane growers, for whom CANEGROWERS Isis acts, have a large investment not only in primary production but also in manufacturing. The future viability of the Isis sugar industry is dependent on remaining profitable, whilst competing in an uneven world market environment where 90% of Australia's sugar production is sold.

Like you, our members want to participate in an agriculture sector that is both profitable and sustainable because they (our members) have made vast capital investment in infrastructure, technology and most are either, second or third generation farmers.

We would like to congratulate the government for its initiative to develop a plan to grow agriculture's competitiveness, farm gate profitability and contribute to Australia's prosperity – including the prosperity of our rural and regional communities. Often the policies of the government impact negatively on our members' ability to remain profitable (e.g. input costs are high compared to our overseas competitors).

Regarding the summary of questions for consideration in the White Paper we offer the following comments –

1. Ensuring food security in Australia and globally

We believe limited opportunities exist to develop further agricultural lands in Australia without massive infrastructure expansion. Most of the good arable land has been developed. Australia is not a continent that can rely on the climate to guarantee food security or farmer viability – i.e. drought.

To remain viable our farms have had to increase in scale and rely on mechanisation due to high input costs (i.e. labour, water & electricity) in Australia to maintain a competitive advantage. The flexibility to change cropping, in response to changes in demand, is very limited due to the specific nature of the machinery involved in farming certain crops (e.g. a \$½M cane harvester will only harvest sugarcane).

Sugarcane growers are locked into sugar production because the factories (sugar mills) need volume to remain viable. Diversification is limited to rotational crops (e.g. peanuts, soybeans) required to break the mono culture cycle and to improve soil health. Another factor preventing large scale diversification is the impact on the producers of other commodities (e.g. vegetable, fruit and nut crops) because of a lack of market opportunity, labour shortage, skills, export infrastructure, etc.

Whilst family owned cane farms do not employ many workers, it's the sugar mills and harvesting sector that are big employers of seasonal labour. The regional economy of many Queensland towns, between Mossman in the north and Beenleigh in the south, rely on the –

- 4000 cane growers;
- 350,000 hectares of sugar production;
- 30 million tonnes of sugar cane;
- 21 sugar mills;
- 840 (estimated) harvesting contractors; and
- Unknown number of service industries supporting the sugar industry.

Speaking now particularly about the Isis / Bundaberg region, both the Federal and State governments contributed financially to an irrigation scheme, which was built to mitigate against drought. Despite this infrastructure investment, water is still a scarce resource in the region, with limited water available in most years. Additional water storage and delivery infrastructure will be required to achieve a stronger and more competitive agricultural sector in this region.

The Queensland Government deregulated the sugar industry in 2005, which was supposed to allow commercial market forces to drive rationalisation. However, high input costs, competition within and outside the industry, community expectations and low commodity prices will gradually cripple the entire sugar industry in this region. There is no other industry in 2014 capable of developing to take over the 36,000 hectares of farmed sugar cane.

Another big problem for the industry is how to secure reasonable returns for farmers to remain profitable. The farmer is responsible for producing the product but everyone other than the farmer makes the profit off the commodity along the value chain.

In order to maintain our competitiveness it is essential to maintain the current mechanisms that help reduce the growers' cost of production. For example, contrary to 'the Greens proposal' it is necessary to retain the off-road diesel fuel rebate (Fuel Tax Credit) for primary producers. It is important to note that this is not a subsidy. There are a range of anti-competitive taxes and charges that should be examined and removed (e.g. State Payroll Tax) to improve the competitiveness of the agricultural sector whose overseas competitors do not pay the same taxes as we face.

2. Farmer decisions for improving farm gate returns

For years our industry has been told to become more efficient, to cut costs to remain competitive and sustainable. Our industry has done this yet the more we do the more that is expected. The reality is, we can no longer rely on productivity growth to offset increased production costs. As marginal costs increase productivity decreases (e.g. the higher electricity and water charges go, the less water will be used and consequently production will decrease).

Our growers are part of a large irrigation scheme which has allowed us to survive droughts in the past by pumping water onto crops to supplement the lack of rainfall. This strategy is now obsolete due to the high cost of electricity that is required to operate our irrigation pumps. Even growers who have invested in low pressure/low energy systems are finding electricity costs to be prohibitive. These growers made investment choices 5 years ago to invest in changed infrastructure, where the capital investment was to be offset by lower operating costs. These growers now find themselves in a position that rising operating costs have diminished the forecast savings which were to be used to pay for the additional capital cost. These growers now regret having made the change.

The price of electricity is not cost reflective because the parameters used to calculate the price of electricity contains such things as headroom allowance, retail margins allowance and carbon tax (comprising 17% of price) which are levies, not costs. The weighted average cost of capital (WACC) is 35% of the current price and the Solar Bonus Scheme is an additional cost, the level of which is uncertain.

The Solar Bonus Scheme is a residential tariff matter, not an irrigation tariff matter and should not be included in calculating the price of electricity for irrigation customers.

The calculation used to determine the Network WACC is flawed. The concept of applying a WACC that would be appropriate for commercial undertakings is not satisfactory. In this case, the Network Regulated Asset Base (RAB) is owned and guaranteed by the government, thus ensuing there is no equity risk and no market risk premium. Therefore, the WACC should be the risk free cost of debt, which is the government bonds rate. We recommend the Network WACC be calculated by using HELMS split cost of capital approach.

The Queensland Competition Authority has done considerable work on the split cost of capital which can be found at <http://www.qca.org.au/Other-Sectors/Research/Form-of-Regulation/Split-Cost-of-Capital-02/Final-Report/Split-Cost-of-Capital/Final-Report/QCA-The-Split-Cost-of-Capital>

During drought, farmers need real financial support from government in terms of –

- Exceptional circumstances (EC) arrangements;
- Targeted assistance (i.e. income support payments to farm families);
- Interest rate subsidies on commercial loans;
- Removal of fixed charge components of water and electricity pricing;
- Rate subsidy;
- Zero interest on re-establishment loans;
- Replanting grants;
- Further government infrastructure development to mitigate against drought;
- Harvesting contractors are an integral part of the industry and like primary producers, through droughts, suffer loss of income. Because the sector is not classed as primary producers, the harvesting contractors cannot obtain drought assistance measures. If these contractors are not supported their loss will be catastrophic for the sugar industry.

Often farmers' children would like to become involved in agriculture but farmers cannot gift the family farm to the children, so there is a need for a Young Farmers Scheme to help young people return to the land.

3. Enhancing access to finance

CANEGROWERS Isis hopes the government is not considering MIS as the model for future agricultural enterprise, as there have been failures in this type of approach in the past.

Joint ownership of farm equipment and farmers cooperating together to reduce capital and labour costs are just some of the ways of reducing costs. However, if it was simple to implement it would have happened earlier.

CANEGROWERS Isis is open to any form of investment into agriculture, be it foreign or local, providing there are satisfactory marketing and pricing arrangements developed.

4. Increasing the competitiveness of the agricultural sector and its value chains

From a sugar industry view point, deregulation in 2005 never anticipated the growers' need or determination to become involved in marketing and pricing. The loss of the Single Desk Marketing Arrangement and the extent of foreign investment in the milling sector have created anxiety amongst the growing sector regarding transparency in establishing grower returns.

Our farmers receive third world prices for their crops but have to pay first world production costs. High Australian costs make it harder to remain competitive on the uneven playing field that is the world market.

Other countries protect their farmers with tariffs, price support and import quotas. Australia's attempts to remove these barriers for our exporters have largely failed. The FTAs currently being signed have been disappointing for agriculture in general and disastrous for sugar in particular.

The Federal government could mandate ethanol in petrol, similar to Brazil, where the Australian sugar industry could turn production to crystal sugar or ethanol dependent on the world market price.

5. Enhancing agriculture's contribution to regional communities

As stated earlier, many regional communities in Queensland from Mossman in the north to Beenleigh in the south depend on the economic contributions of the sugar industry. These communities are supported through employment opportunities and many service industries rely on the viability of farmers.

Therefore, it is in the national interest to maintain a profitable and viable sugar industry that farms 350,000 hectares of some of the most fertile agricultural land in Queensland.

6. Improving the competitiveness of inputs to the supply chain

Australia has the most expensive land, water, electricity and labour costs in the world. For Australian exports to remain competitive in the world market, the cost of water, electricity and other major farm inputs must be immediately reduced.

There is no point in building more infrastructure if farmers have to fund the consequent capital costs through a flawed WACC pricing structure.

The Australian Government's support for research into genetically modified sugarcane and implementation of such GM canes would be appreciated as GM is seen as a possible way to improve productivity, whilst reducing input costs for growers.

7. Reducing ineffective regulations

Regulation comes at a huge cost to farmers and a more practical and acceptable resolution would be to adopt self-regulation and industry code of practice/best management practice. More support from the government would be beneficial here.

8. Enhancing agricultural exports

The sugar industry is disappointed with the latest FTAs and more work needs to be done to improve our industry's access to all world markets without inference of import or export tariffs.

9. Assessing the effectiveness of incentives for investment and job creation

Our industry has found that landholder incentives provided through government funding, matched by farmer contributions, is a more successful way of achieving outcomes. (e.g. Reef Rescue funding has had a significant benefit to the community and farming alike and has delivered good environmental outcomes for the Great Barrier Reef.

In summary, CANEGROWERS Isis has focused on the factors affecting the sugar industry's ability to participate in the Australian Government's ambition to grow the agricultural sector to deliver greater return to our nation.

Clearly, we are interested in further engagement on this important matter. There needs to be closer discussions at an industry level, involving all industry participants, growers, millers, marketers and government.

Yours faithfully

A handwritten signature in black ink, appearing to read 'Wayne Stanley', with a stylized, sweeping flourish at the end.

Wayne Stanley
MANAGER