

17 April 2014

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

Via online submission

Dear Minister Joyce,

**CANEGROWERS submission to the Agricultural Competitiveness White Paper.**

CANEGROWERS are pleased to provide our submission to the Agricultural Competitiveness White Paper. Our responses to the nine questions are outlined in the submission.

CANEGROWERS is the peak representative body for Australian sugarcane growers and represents around 80% of cane growers. The largest membership percentile held by any agricultural group in Australia. Membership ensures that growers' needs are represented at the highest possible levels of industry and government decision-making.

If you have any further questions, do not hesitate to contact me on (07) 3864 6444.

Yours faithfully,



Ron Mullins  
Acting CHIEF EXECUTIVE OFFICER

## **Roles for Government identified in CANEGROWERS submission to the Agricultural Competitiveness White Paper**

### **1. Food security in Australia and the world through the creation of a stronger and more competitive agriculture sector;**

- Ensure government policies facilitate the future expansion of industry to guarantee food security.
- More work can be done by State and Federal Governments to find suitable soils and water storage opportunities for agricultural development.
- Implement rules surrounding foreign investment to ensure stability in and the integrity of institutional arrangements that underpin the international competitiveness of Australian agriculture.
- Negotiate trade agreements that provide commercially worthwhile new market access opportunities for Australian sugar exports (for more on trade see Issue 8 “Enhancing Agricultural Exports”).

### **2. Means of improving market returns at the farm gate, including through better drought management;**

- Recognise that small scale growers are a critical part of the sugar cane supply to maintain competitiveness of the current sugar industry and ensure that tax and other incentives are structured to assist in maintaining part time farmers.
- Provide incentives that facilitate the consolidation of farms but do not prejudice the small scale growers
- Provide incentives for new entrants to agriculture particularly young farmers
- Maintain land use policies that retain land for agriculture
- Provide education to grower to enable them to understand and make decisions around economies of scale and increasing farm size.
- Recognise the impact of climate on the production risks that farmers face and design policies to help farmers adjust to and cope with the increased variability of weather patterns and severity of weather events.
- Recognising that Australian sugarcane farmers are part of a highly integrated production system who share in marketplace risks and rewards, implement policies that ensure growers have the right to determine how their share of the sugar is sold and priced.

### **3. Access to investment finance, farm debt levels and debt sustainability**

- Develop and maintain specific financing facilities for entry level growers and farm consolidation.
- Facilitate the increase in the number of insurance underwriters servicing Northern Australia, to increase competition in the market;
- Introduce a natural disaster perils fund. This could be similar to the New Zealand approach to earthquake relief and funded by a levy.

### **4. The competitiveness of the Australian agriculture sector and its relationship to food and fibre processing and related value chains , including achieving fair returns;**

- Government can ensure that growers are not disadvantaged by recognise any disparity caused by large milling companies and foreign ownership.

- Growers need to be able to effectively bargain collectively with each milling company
- Suitable arbitration options should be available.
- Recognise the Smartcane BMP as the industry best management practice program that meets the needs of growers, continuous improvement and sustainable sugar.
- Ensure third party accreditation schemes are not mandatory for the sugar industry to access markets.

**5. The contribution of agriculture to regional centres and communities, including ways to boost investment and jobs growth in the sector and associated regional areas;**

- Government need to recognise agriculture’s contribution to regional communities through jobs and rates, therefore inequity needs to be addressed

**6. The efficiency and competitiveness of inputs to the agriculture value chain — such as skills, training, education and human capital; research and development; and critical infrastructure;**

- Work with industry to reduce unnecessary transport regulations.
- Facilitate the maintenance and development of infrastructure to allow for the transport of sugar.
- To supports the continuation of the diesel fuel rebate for off-road and agricultural uses
- To consider rebates (or reductions in taxation) on diesel fuels in Northern Australia. The intent of this policy would be to equalise the cost of diesel fuels between metropolitan and regional areas.
- Provide the water and electricity infrastructure necessary to facilitate the growth and development of rural and regional Australia at sustainable prices
- Provide stable business enabling policy framework that enables sugar and other agricultural industries, building on their underlying strengths to invest and expand with confidence
- Review the application of national competition policy and, importantly, the way in which it is implemented
- Require the introduction of a suite of electricity tariffs for food and fibre production that reflects the needs of the sector particularly those of irrigators
- Increasing the total government expenditure on agricultural R&D by 1% (of total government expenditure on R&D, from 0.5% to 1.5% of Gross Value Product) by 2015 will help position Australia internationally as a leader in agricultural production.
- To contribute to R,D&E expansion in Northern Australia.
- Government should recognise that Australia’s investment in R&D is small in world terms and can assist in developing a platform to be able to share and combine skills with improved communication, cooperation and cross pollination of all Australian agricultural R&D particularly biotechnology.
- Providing an attractive environment for commercial organisations to invest in R&D in Australia (i.e. GM sugar cane).
- Assistance will be necessary to education the “market” to enable acceptance of GM sugar
- Facilitate an affordable deregulation process to enable GM varieties to be released in a timely manner.

**7. The effectiveness of regulations affecting the agriculture sector, including the extent to which regulations promote or retard competition, investment and private sector-led growth;**

- Harmonise vegetation clearing laws across jurisdictions to reduce red tape. These must not hinder or unduly restrict routine maintenance or the development of new agricultural cropping lands and associated infrastructure.
- Review the option of divesting overlapping areas of environmental protection and biodiversity conservation of the Federal EPBC Act 1999 to state jurisdictions.
- Reducing red-tape and implementing measures to improve efficiencies on chemical reviews and registration opportunities for new chemicals.

#### **8. Opportunities for enhancing agricultural exports and new market access;**

- Improve market access for sugar in all new trade agreements, bilateral (China) and regional (TPP and RCEP).
- The agreements must:
  - Deliver commercially worthwhile improvements in market access from the commencement of the agreement leading to full market access over a short implementation period.
  - Eliminate tariffs and quotas that restrict access for sugar.
  - Establish rules that enable sugar and value adding products that contain sugar to move freely around parties to regional trade agreements.
- Provide sufficient resources to ensure compliance with trade rules and to pursue remedies when required.
- Communicate the benefits of trade and trade agreements to the broader Australian community.  
Ensure trade agreements deliver worthwhile new export opportunities and improved on farm returns by trade negotiators work more closely with industry to develop a complete understanding of the implications of prospective agreements.

#### **9. The effectiveness and economic benefits of existing incentives for investment and jobs creation in the agriculture sector.**

- Endorse and continue to support the Smartcane BMP program.
- Allow industry to self-regulate
- Use the Reef Trust program to scale-up the adoption of the Smartcane BMP by the Australian sugarcane industry through the allocating of funding over the next three years.
- CANEGROWERS want to see the continuation of the Reef Rescue program in some form with greater emphasis and direction given to industry delivery.
- Allow more flexibility to the national training system.
- Training and extension activities for sugarcane need to be incorporated into the national framework
- Encourage Registered Training Organisations to work closely with Industry to ensure that industry can maximise the training it requires, in the form it wants and in a timely manner.
- Continue to support biosecurity funding, surveillance and programs to limit the risk of pest incursions.
- Focus on Northern Australia, particularly Papua New Guinea and the Torres Straight regions where biosecurity risk to the cane industry is highest.
- Effective coordination with all levels of government and the cane industry

## Introduction:

The Australian sugarcane industry is undergoing an extensive resurgence. With rapidly increasing demand for sugar from Asia and significant international investment in land and mills, sugarcane growers are focussing on producing more sugarcane.

Fully deregulated, and in an expansion phase, the Australian sugarcane industry is poised to further increase its contribution to the economic growth and strengthening the social fabric of regional Australia.

It is vital that the Australian Government takes this timely opportunity to amplify the economic and social benefits of the sugarcane industry's expansion by removing the barriers to the sugar industry's growth and development.

### Industry at a glance

Sugarcane is one of Australia's largest and most important rural industries. For more than a century, the growing of sugarcane for production of raw sugar has underpinned the prosperity and economic stability of communities along Australia's sub-tropical east coast. Sugarcane grows mainly in high rainfall or irrigated areas on coastal plains and river catchments along 2,100 km of coastline, from Mossman in far north Queensland to Grafton in northern New South Wales. About 95% of Australia's production is grown in Queensland; the remaining 5% is grown in New South Wales.

With the capacity to produce more than five million tonnes of sugar each year, the Australian sugar industry generates between \$1.5 and \$2.5 billion in revenue annually. A low-cost producer, Australia is the world's third largest raw sugar exporter after Brazil and Thailand and generates \$1.7 billion in annual export revenue. With some 80% of the country's sugar exported, the remaining 20% of sugar produced is sold on the domestic market.

The vast majority of cane is grown on family-owned farms ranging in size from 40 to 250 hectares (ha). The total area of sugarcane harvested in Australia in the 2012 season was 357,409 hectares. While some farms harvest more than 100,000 tonnes of sugarcane, the average grower produces 8,000 tonnes. The sugarcane harvest begins in May in northern Queensland and ends in late December in southern Queensland and northern New South Wales. In Australia, while some sugarcane burning does still occur, around 80% is harvested green.

### Harvest and Transport

Harvesters cut, on average, 40,000 tonnes of sugarcane per season, but some cut upwards of 100,000 tonnes. Once harvested, cane is collected in haul-outs and transferred to semi-trucks for road transport, or mill bins for train transport to mills. To minimise sugarcane deterioration and juice evaporation, sugarcane must be transported to a sugar mill within 16 hours of harvest.

The sugarcane industry maintains a network of nearly 4,000 km of narrow-gauge rail lines to ensure that the harvested cane is transported as quickly and as cost effectively as possible.

### Sugarcane milling

Each year, over 30 million tonnes of sugarcane is supplied to Australia's 24 sugarcane mills by more than 4,000 cane farming businesses (around 6000 sugarcane growers). Each mill crushes an average of 10,000 tonnes of sugarcane per day, and employs approximately 150 people during the season. Together, millers, growers and harvesters determine harvesting and transportation schedules that ensure that the cane is crushed as soon after harvesting as possible.

### The sugar market

Prior to deregulation of the sugar market in 2006, Australia enjoyed a 'single desk' arrangement in which all sugar was compulsorily acquired by sugar marketer, Queensland Sugar Limited (QSL). Today the majority of Australia's production is still managed under QSL marketing arrangements. An underlying strength of the industry is its long standing institutional arrangements that ensure market growth and rewards are shared by growers and mills together.

The structure enables the industry to leverage beneficial outcomes for Australian sugar on the international market. With 80% of Australian sugar produced for the export market, the industry's international competitiveness is key to its long term success.

In Australia, there are no subsidies and there is no domestic support price. Australian sugar is internationally recognised for its high quality; and the industry is renowned for its supply reliability and superior service. Such success has been achieved through the use of best management practice in production, handling and marketing.

Australia's capacity to store more than two million tonnes of sugar in a network of bulk terminals is particularly valuable, as it allows for year-long customer supply. The main buyers of Australian sugar are South Korea, Indonesia, Malaysia, Japan, New Zealand and the United States of America. The Asian market is experiencing strong growth in sugar demand as a result of an increasing and per capita income. Australia is ideally located to fill growing Asian demand for quality sugar.

The average projected growth in world sugar demand is 2% annually.

### **Key issues**

#### Continued funding for Research, Development and Extension.

In 2013, The Australian sugar industry has established a new R,D&E industry owned company, Sugar Research Australia Limited (SRA). SRA invests in and manages a portfolio of research, development and extension (RD&E) projects that drive productivity, profitability and sustainability for the Australian sugarcane industry based on industry priorities.

SRA is funded by a statutory levy paid by grower and milling businesses. SRA also receives matching funds from the Australian Government, and grants from the Queensland Government and other bodies.

The Australian Government's funding of sugar industry R&D has fallen during the past decade, reducing the Australian sugar industry's competitiveness and ability to sell more sugar into the growing markets in Asia.

Increasing the total government expenditure on agricultural R&D by 1% (of total government expenditure on R&D, from 0.5% to 1.5% of Gross Value Product) by 2015 will help position Australia internationally as a leader in agricultural production.

### Marketing

There is considerable pressure on the industry's marketing structures. CANEGROWERS continues to be a strong supporter of the Queensland Sugar Limited (QSL) marketing model however recent announcements by Wilmar Sugar of its intention to move away from QSL and disrupt the industry's marketing institutions has created further instability.

CANEGROWERS is developing a response that will ensure a stable, transparent marketing platform is available to growers so they can have the ability to determine how their share of the sugar produced is priced and marketed.

### Trade and market access

As more than 80% of Australian sugar is exported, CANEGROWERS actively supports the Australian government's efforts to have sugar fully included in all trade agreements (bilateral, regional and multilateral) to secure a world in which the trade in sugar flows freely. In all trade negotiations CANEGROWERS has joined the industry in calling for commercially-worthwhile new market access opportunities for sugar in the immediate term, with annual increases until open access is achieved and is working closely with government to secure this outcome.

Sugar must be included as an important item in all of Australia's trade agreements. All trade agreements should be comprehensive with no exclusions.

### Electricity

CANEGROWERS has consistently argued that the electricity pricing framework is broken. Government policy is pushing electricity and fuel costs higher, eroding the international competitiveness of the Australian sugarcane industry.

CANEGROWERS is seeking the introduction of a suite of tariffs for food and fibre production that reflect the needs of the sector, particularly those of irrigators. Tariffs should reflect irrigators' demand on the network as base load and off-peak users. It is important that there be a worthwhile off-peak tariff differential.

Electricity network regulation is a federal issue. Failure to effectively regulate has caused electricity costs for sugarcane irrigators to double over the last seven years.

Remove the carbon tax.

The network component of electricity bills is regulated federally by the Australian Energy Regulator (AER). Network charges, 54% of the bill, are higher than the cost of supplying irrigators. Introduce network tariffs for food and fibre production to address the impact of network charges.

### Water

There is a role for government in providing the necessary infrastructure to enable the growth and development of regional communities. Imposition of National Competition Policy (NCP) competitive neutrality principles on water utilities without introducing structures that increase productivity will increase costs and prices. The Federal Government working with the States should review the application of NCP and importantly, the way in which it is implemented.

### Environment

Sugarcane's proximity to the Great Barrier Reef continues to pressure growers and industry on their social licence to operate. CANEGROWERS continues to participate in Reef programs including Reef Plan and Reef Rescue relating to water quality improvement and the resilience of the Great Barrier Reef.

The Australian Government's Reef Rescue program is delivering real outcomes for both growers and the environment. The Reef Report Card shows that the sugarcane industry has improved practices, reducing nitrogen, pesticides and sediment run off. Reef Rescue or similar programs must be continued with greater emphasis and direction given to industry delivery.

The Australian sugarcane industry is developing a new world-class best management practice system for sugarcane growing. The Smartcane BMP drives productivity, profitability and environmental stewardship. Increasing the rate of practice-change adoption requires additional resources.

CANEGROWERS continues to lobby for the efficient and effective use of herbicides and fertilisers to support business productivity and stewardship needs.

### Biosecurity

Continued effort in biosecurity is important for the productivity and profitability of the Australian sugar industry. Stopping the entry, establishment and spread of exotic diseases and pests is vital for our industry's future. If unchecked, yield losses would be high and devastating to industry productivity and profitability.

## 1.1. Food security in Australia and around the world

### Food security and sugar in Australia

Australia is one of the world's most efficient and lowest cost sugar producers. The Australian sugar industry grows more than 30Mt of sugarcane annually to produce 4.5Mt sugar, of which 3.5Mt is exported. With more than 80% of the industry's production exported and domestic prices world market determined, it is world market dependent.

Australia is the 3rd largest exporter of sugar in the world and because of this Australia's supply of sugar is secure.

### Future demand for sugar

The Australian agricultural sector is undergoing resurgence as it responds to the rapidly growing demand for across the Asia-Pacific for food. The region's population is growing rapidly and incomes are rising strongly. As the economies mature consumption is increasing and diets are changing. People are demand more protein in their diet and they are choosing sweeter foods.

Key trends in the world sugar market (*Sugar in 2030*, Czarnikow Group 2011):

- World sugar consumption to increase from 168 million tonnes to 257 million tonnes by 2030;
- Asia to increase its share of global sugar consumption from 40 to 49%, cementing its place as the world's largest consumer;
- India's consumption will nearly double over the next 20 years, and Chinese consumption will overtake EU consumption by 2014; and
- India and China will account for 17.6% and 14.7% respectively of global consumption by 2030.

### Future supply of sugar

North Australia's geographic proximity to the growing sugar deficit in the East Asia region provides the Australian sugar industry with a competitive advantage in both the sugarcane growing and raw sugar milling sectors. Australia has enormous potential to expand its sugar industry and develop several new, large areas of sugarcane production for export to Asia.

The largest potential for expanding the industry exists in Northern Queensland (based on the Queensland Agricultural Land Audit) and North West Australia, primarily around the Ord River Irrigation Area (ORIA).

#### Role for government

- Ensure government policies facilitate the future expansion of industry to guarantee food security.
- More work can be done by State and Federal Governments to find suitable soils and water storage opportunities for agricultural development.

### Marketing

The industry's ability to continue to supply the Australian and Asia-Pacific markets with sugar without government support hinges on its international competitiveness. Since its inception the Australian sugar industry has been a world leader applying leading edge innovative technologies in sugarcane research and development, on farm production, the transport and annually handling of more than 30Mt of biomass for processing, production of raw sugar, bulk storage, handling and logistics, and marketing. The most recent of which is the development of systems that enable Australian farmers to manage the sugarcane price risk associated with the sugar in which they have an economic interest. No other sugar industry in the world offers its farmers this pricing flexibility.

The current institutional arrangements which had been a platform for industry growth and development are being challenged. Wilmar Sugar (Wilmar) has announced its intention to withdraw from the industry's longstanding marketing structures and in doing so is denying growers an ability to determine how the sugar in which they have an economic interest is priced and sold. This decision undermines the stability and integrity of the marketing structures, risks the transfer of income from the sugarcane growing to milling sector and is a direct threat to the international competitiveness of sugarcane production in Australia.

The Australian industry is a strong competitor in the world sugar market, a market widely acknowledged as one of the most distorted of all international commodity markets. These distortions reduce the level of export income and underlie the industry's strong and ongoing commitment to secure through multilateral, regional and bilateral trade agreements a world in which the trade in sugar flows freely, unrestricted by trade barriers. Enabling product to flow freely around the region will improve security of supply and meet customer needs in a strong price environment.

#### Role for government

- Implement rules surrounding foreign investment to ensure stability in and the integrity of institutional arrangements that underpin the international competitiveness of Australian agriculture.
- Negotiate trade agreements that provide commercially worthwhile new market access opportunities for Australian sugar exports (for more on trade see Issue 8 "Enhancing Agricultural Exports").

## 2.1 Farmer decisions for improving farm gate returns

### Diversity of growers and critical production levels

Farm gate returns are essential to maintaining the sugar industry and is a concern for the whole value chain.

There is no clear distinction within the sugar cane industry of any particular business structure that is more successful than any other. Typically 30% of the growers produce 70% of the sugar cane. The yield per ha follows no distinct trend by size of farm. In a survey of growers in the Central Queensland region 50% of growers worked off farm and this provides a level of resilience by diversifying the income stream. The same survey indicated that the average age of growers was close to 60 however there was no significant productivity decline with age.

In any one sugar mill area there needs to be sufficient sugar cane production to ensure that the mill remains profitable. Therefore it is in all supplying growers' interest to ensure that a viable level of cane production is maintained. This means that the 70% of growers producing 30% of the cane are critical.

In adverse times (drought, flood, cyclone or pest infestation) it is important that growers (particularly small scale growers) do not stop growing cane completely. Larger farms tend to remain under cane even if the ownership changes however small areas of cane are more easily converted to lifestyle blocks with no cane.

There is a trend towards consolidation of farms and utilising economies of scale particularly with respect to machinery. This trend is positive and should be encouraged.

#### Role of government

- Recognise that small scale growers are a critical part of the sugar cane supply to maintain competitiveness of the current sugar industry and ensure that tax and other incentives are structured to assist in maintaining part time farmers.
- Provide incentives that facilitate the consolidation of farms but do not prejudice the small scale growers
- Provide incentives for new entrants to agriculture particularly young farmers
- Maintain land use policies that retain land for agriculture
- Provide education to grower to enable them to understand and make decisions around economies of scale and increasing farm size.

Farmers also need a range of tools and mechanisms to manage their farm production and price risks.

### Production risk

In the Australian farm sector seasonal variability is a key production consideration. Located along the coastal strip of Queensland, farmers in the sugarcane industry are familiar with the extremes of weather and the variability of climate. In recent years, growers have had to deal with record rainfall and extended hot dry periods. For example, cane producing districts ravaged by the impact of floods associated with ex-tropical cyclone Oswald in January 2013 were confronted with the longest dry period on record for the region between July 2103 and April 2014 and drought declared in March 2014.

While farmers in the sugar cane industry and across Australian agriculture more generally are resilient and sound managers of seasonal variability, the impacts of recent events have taken a toll. If the variability of weather patterns and the severity of droughts, cyclones and floods are to

increase, as many climate experts predict, policies designed to help farmers adjust to and cope with climate change are likely to deliver a much higher return than those aimed at preventing climate change.

#### Role for government

- Recognise the impact of climate on the production risks that farmers face and design policies to help farmers adjust to and cope with the increased variability of weather patterns and severity of weather events.

#### **Pricing**

The Australian sugar industry is a world leader in the development of raw sugar marketing systems, in the storage, handling and logistics task associated with taking the physical product to market and the pricing of the product. No other sugar industry in the world has systems that enable farmers to manage the price risk associated with the sugar produced from their sugarcane using the raw sugar futures market separately from the physical sales activity. The residual, physical, component of price is determined by the seller.

A key strength of the industry's institutional arrangements is that QSL, a company jointly owned by growers and millers, is required by its constitution to act in the best interests of the industry – growers and millers together. This ensures transparency in the flow of revenues from physical sales and in the sharing of associated costs between growers and millers. It ensures growers receive a fair return for their sugarcane.

The system has evolved to provide mill owners with the right to determine how their share of the sugar is sold as well as priced. Given the direct link between raw sugar and cane prices, growers want to be able to exercise the same rights in relation to the sugar in which they have an economic interest. To preserve the transparency in pricing and to introduce genuine competition into otherwise regional markets for sugarcane dominated by a mill monopoly buyer, CANEGROWERS is looking to develop cane supply agreements that assign growers the right to determine how their share of the sugar is sold and priced whilst retaining the integrity of existing structures. Importantly, it does not deny mill owners the ability to make a competitive offering to growers for the sale and pricing of their share of the sugar produced.

#### Role for government

- Recognising that Australian sugarcane farmers are part of a highly integrated production system who share in marketplace risks and rewards, implement policies that ensure growers have the right to determine how their share of the sugar is sold and priced.

### 3.1 Cost and accessibility of finance

#### Efficiency of financial markets can be improved

##### Access to affordable capital

Despite record low official interest rates, the cost of finance (relative to expected returns) is prohibitive for many sugarcane growers. The cost of owning and establishing a sugarcane farm is particularly difficult for young sugarcane farmers or new entrants into the sugarcane industry. It appears that the risk inherent in a greenfield development would suggest that interest rates from commercial sources could be prohibitive to development.

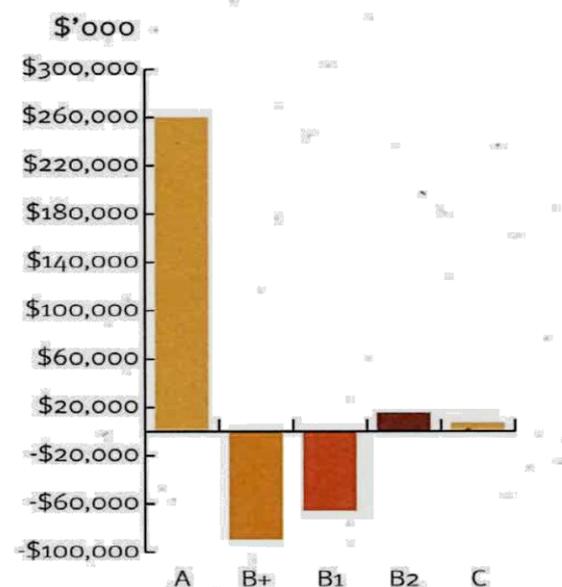
##### Role for Government

- A solution to this problem is to spread the inherent riskiness of capital raising for greenfield development in Northern Australia. If a source of capital which shares the risk in the lending terms is available, it will allow access to a greater number of investors (farmers) and enable development. This may be particularly significant in attracting young farmers and new industry participants.

##### Farm debt levels

Farm debt levels in the Australian sugarcane industry are manageable. Overall 80% of sugarcane debt levels were at an acceptable debt level as per figure 1. However there are still 17% of farms at high risk debt levels. Debt management is critical if expansion or consolidation of farms is to be facilitated.

**Figure 1: movement in debt, split by debt rating**



Source: QRAA, Rural Debt Survey 2011

##### Role for Government

- Develop and maintain specific financing facilities for entry level growers and farm consolidation.

##### Insurance

The cost of insuring a farm (including a residence, business liability, theft and machinery breakdown) already varies significantly between North and South Queensland. Higher premiums attract higher GST and Stamp Duty charges which add to the disparity in cost. Some sugarcane growers are now

choosing not to insure, simply due to the cost of the insurance policies available. This is potentially prohibitive for any development in Northern Australia.

*Role for Government*

- Facilitate the increase in the number of insurance underwriters servicing Northern Australia, to increase competition in the market;
- Introduce a natural disaster perils fund. This could be similar to the New Zealand approach to earthquake relief and funded by a levy.

## 4.1 Increased Competitiveness of the Agricultural Value Chain

### **Bargaining within the value chain**

Within the sugar industry there is a division of the proceeds from sugar sales which is determined (among other issues) through a Cane Supply and Processing Agreement between sugar millers and growers. This is different to most other agriculture commodities.

Further to this there are share services for research, development and extension through Sugar Research Australia and pricing, marketing and logistics through QSL.

The ability of the value chain to negotiate these on a basis where neither producers nor processors have a monopoly or significant advantage or hold over the other is considered critical to future competitiveness of the sugar industry. Australia has been a world leader in this regard and needs to remain so.

There has been a change in the ownership of sugar milling with 80% of the production being processed by three companies and more than 70% foreign owned. This has changed the nature of the milling sector perspective and needs and the ability of growers to successfully negotiate a Cane Supply and Processing Agreement.

Well established and successful value chain shared services are being undermined for single mill owner's benefit as evidenced by the withdrawal of Wilmar from QSL without consultation with growers. Growers have limited ability to protect their interests. If neither growers nor millers have a distinct advantage the industry will be more inclined to find a compromise which is of benefit to the whole industry and not favouring one sector.

#### Role for government

- Government can ensure that growers are not disadvantaged by recognise any disparity caused by large milling companies and foreign ownership.
- Growers need to be able to effectively bargain collectively with each milling company
- Suitable arbitration options should be available.

### **Third party certification schemes**

A number of third party accreditation schemes for sugar are being developed and implemented. The most recognised of these is the Bonsucro production standard.

Bonsucro was established in the EU and primarily targeting third world producers to ensure sugar is sustainably grown and manufactured without undesirable environmental or social impacts. It is supported by various non-government organisation and buyers of sugar under their sustainable procurement initiatives. Bonsucro is recognised by sugar buyers globally and links its name to a product that has been certified as being compliant.

As at February 2014 Bonsucro estimated approximately 3.7% of the world's land under sugarcane was Bonsucro certified.

CANEGROWERS have developed the Smartcane BMP program (see 9.1) which focuses on productivity, profitability and stewardship. Smartcane BMP meets and in some cases exceeds the Bonsucro standard for grower production and practices.

CANEGROWERS recognise that sugar buyers, mills and suppliers in the sugar value chain will respond to consumer wants and the demand for the sustainable production of sugar.

*Role for Government*

- Recognise the Smartcane BMP as the industry best management practice program that meets the needs of growers, continuous improvement and sustainable sugar.
- Ensure third party accreditation schemes are not mandatory for the sugar industry to access markets.

## 5.1 Contribution of the sugarcane industry to regional communities

### **Economic benefits from the sugarcane industry**

#### Regional employment

Regional centres like Mackay, Cairns, Townsville and Bundaberg have been built on the development of the Australian sugarcane industry. Even following mechanisation, deregulation and rationalisation of the sugarcane production, the sugarcane industry continues to be a major job creator in regional areas, employing nearly 35,000 people.

#### Contribution to local council rates

The sugarcane industry is a major contributor to local council rates in many regional areas. In some Local Government Areas (LGAs) such as the Burdekin, growers pay 45% of the rates based on land value of only 11.5%. This is considered inequitable and needs to be addressed.

#### Role for Government

- Government need to recognise agriculture's contribution to regional communities through jobs and rates, therefore inequity needs to be addressed.

## 6.1 Improving Competitiveness of Inputs to the Supply Chain

### Transport

The efficiency of transporting sugarcane from paddock to mills and from mills to port will determine the international competitiveness of the Australian sugar industry, as a bulk exporter of raw sugar. The four key transport components of the sugar export freight task are from paddocks to roads and rail lines in sugarcane growing areas, freight of sugarcane along these transport corridors to mills and from mills to ports (figure 2).

**Figure 2: Freight supply chain from paddock to port**



*Figure 1 Harvester and haul-out unit operating in a paddock*



*Figure 2 Haul-out unit loading a cane bin*



*Figure 3 Cane train transporting cane to mill on private rail network*



*Figure 4 Bulk export terminal used to load sugar onto ships for export*

#### Paddock to mill transport

There is a local transport requirement to efficiently deliver sugarcane from paddocks to a sugar mill. The sugar industry makes a significant contribution to the construction and operation of private transport infrastructure, such as the cane railways. The cane railway network has an estimated replacement value of between \$1.5 billion and \$2 billion. There are in excess of 4000 kilometres of track, approximately 250 diesel hydraulic locomotives and around 52 000 cane ‘bins’ in use to transport harvested cane to mills during the harvest season (July to December). It is estimated that the cane railway systems keeps the equivalent of 15 000 truck movements per day off the coastal Queensland road network during the crushing season.

While the transport infrastructure is very efficient in the Just-In-time delivery of sugarcane to mill and raw sugar for export, transport regulations are an unnecessary burden on the competitiveness of the Australian sugar industry. Continual and persisting issues around permits for seasonal movement of tractors and harvesting equipment, as well as regulatory restrictions around the use of cutting-edge technology (such as high-flotation tyres).

#### Port access for export

Private investors (both current and new industry participants) will not re-invest in new sugarcane growing areas and associated milling assets without reasonably priced road or rail access to a port. All levels of government must work to reduce the price of access for existing port infrastructure and develop new ports with the required transport links.

#### Role for Government

- Work with industry to reduce unnecessary transport regulations.
- Facilitate the maintenance and development of infrastructure to allow for the transport of sugar.

## Fuel costs

It is well known that the price of diesel fuel varies significantly between urban and regional centres. The average price difference between Australia's major cities and regional centres in Northern Australia is estimated at 18.3 c/L (11/03/2014). This difference in price places development in Northern Australia at a competitive disadvantage, both internationally and domestically.

### Role for Government

- To support the continuation of the diesel fuel rebate for off-road and agricultural uses
- To consider rebates (or reductions in taxation) on diesel fuels in Northern Australia. The intent of this policy would be to equalise the cost of diesel fuels between metropolitan and regional areas.

## Electricity and Water charges

Cost of production is a headline issue impacting on the viability of the Australian sugarcane industry. Recent and rapid increases in government fees and charges (particularly those relating to infrastructure) are eroding the underlying international competitiveness and profitability of the Australian sugarcane industry.

The two largest issues for the cost of production in the sugarcane industry are the prices of electricity and irrigation water. Prices for these vital farm inputs have nearly doubled over the past seven years, at a time when all other input prices have remained relatively unchanged or fallen (figure 3). The primary driver for these increases in prices has been the delivery of inflated and guaranteed returns to state governments for low-risk public assets. These regulated returns are effectively a tax, where the price of a good is increased to provide a guaranteed revenue stream to government.

In the case of electricity, the federal government's Australian Energy Regulator (AER) regulates the electricity network prices. Its engineering approach to price setting takes little account of the impact of price decision on either the international competitiveness of users or the long term viability of the network. The principal driver of recent electricity price hikes is a regulatory pricing framework that pushes all of the financial risks associated with poor investment decisions on to electricity users, not the asset owners. With risk treated in this way, it is important that application of national competition policy (NCP) principles to the sectors be reviewed and the maximum allowable return (WACC) on electricity assets be capped at the risk free rate of return. The ten year government bond rate is presently 4.1%.

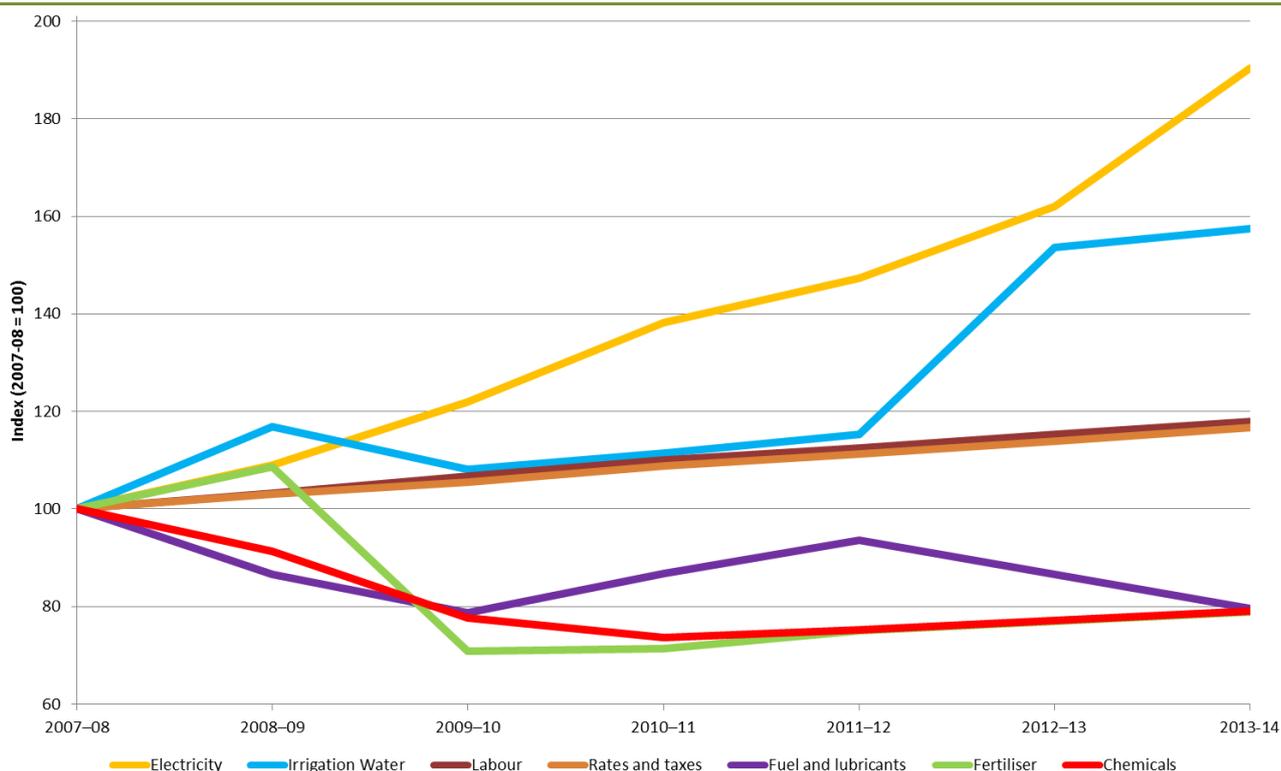
The burden of regulated Queensland Government returns in electricity and water prices is significant. For example, the retail price of electricity in Queensland could be reduced by 23% if the Queensland government returned the dividends, corporate tax equalisation payments and debt fees from its network businesses (Ergon, Energex and Powerlink) to Queensland customers in the form of lower prices.

A further 16% reduction in retail price would be achieved if environmental policies (such as the carbon tax, the Small-scale Renewable Energy Scheme (SRES) and the Solar Bonus Scheme (SBS) were removed from the price of electricity and delivered out of general revenues.

A sign that the electricity pricing framework needs repair is that network demand is declining in a growing energy intensive economy. Further price increases will hasten the pace of decline, reducing rather than enhancing network revenue.



Figure 3: Farm input prices (2007-08 to 2013-14)



Source: QCA, ABARES

Role for Government

- Provide the water and electricity infrastructure necessary to facilitate the growth and development of rural and regional Australia at sustainable prices
- Provide stable business enabling policy framework that enables sugar and other agricultural industries, building on their underlying strengths to invest and expand with confidence
- Review the application of national competition policy and, importantly, the way in which it is implemented
- Require the introduction of a suite of electricity tariffs for food and fibre production that reflects the needs of the sector particularly those of irrigators

**Research, Development and Extension (RD&E)**

The sugar industry RD&E has provided a competitive advantage. Australian sugar yield per ha have been higher than other sugar cane producers. This advantage has been eroded as other countries have developed their capabilities and Australian yields have not reflected a yield increase in at least 10 years. In fact there has been a yield decline. Although there are a number of contributing factors variety improvement is considered to be the major one. At the same time it is well documented that the investment in RD&E by both industry and government has been reducing in real terms. This is not sustainable.

The industry has just restructured the RD&E sector with the establishment of an industry owned company Sugar Research Australia and the Commonwealth matching funding into SRA are acknowledged and should be maintained.

The development of GM varieties is considered to be the next step change which comes with a significant investment not only for the research but the deregulation process. For the sugar industry to participate in the biotechnology RD&E (and keep up with our competitors) an investment beyond

the current funding is required. The Australian sugar industry needs to be able to provide an environment which is able to attract and maintain a successful partnership with resources to develop and commercialise GM sugar cane. This way we keep ahead or at least up with our competitors and are able to take advantage of the innovations.

As mentioned there is estimated significant increased demand for sugar in Asia and Australia is well placed to take advantage of this with the development potential in Northern Australia. This however will require some level of additional RD&E which is possibly beyond the ability of the current industry to provide.

#### Role for Government

- Increasing the total government expenditure on agricultural R&D by 1% (of total government expenditure on R&D, from 0.5% to 1.5% of Gross Value Product) by 2015 will help position Australia internationally as a leader in agricultural production.
- To contribute to R,D&E expansion in Northern Australia.
- Government should recognise that Australia's investment in R&D is small in world terms and can assist in developing a platform to be able to share and combine skills with improved communication, cooperation and cross pollination of all Australian agricultural R&D particularly biotechnology.
- Providing an attractive environment for commercial organisations to invest in R&D in Australia (i.e. GM sugar cane).
- Assistance will be necessary to education the "market" to enable acceptance of GM sugar
- Facilitate an affordable deregulation process to enable GM varieties to be released in a timely manner.

## 7.1 Ineffective Regulations

### Native vegetation protection

Native vegetation (and other environment) controls are a significant financial and regulatory impost faced by Australian sugarcane growers.

The current state and federal legislation aimed at protecting native vegetation restricts clearing activities by geographical area (bioregion) and by flora type (plant species). Offset requirements are also onerous if the clearing involves endangered or of-concern regional ecosystem or threatened plant species.

The regulatory burden associated with clearing sufficient remnant vegetation to develop a new paddock is cost prohibitive (particularly if environmental offsets are required). The regulatory process is very complex, involving separate pieces of state and federal legislation and differing state and federal administering authorities. There no consistency to native flora protection across each state or federal jurisdiction.

CANEGROWERS believes that routine maintenance of existing cropped areas and minor expansion of sugarcane production does not necessarily result in diminished biodiversity values.

#### Role for Government

- Harmonise vegetation clearing laws across jurisdictions to reduce red tape. These must not hinder or unduly restrict routine maintenance or the development of new agricultural cropping lands and associated infrastructure.
- Review the option of divesting overlapping areas of environmental protection and biodiversity conservation of the Federal *EPBC Act 1999* to state jurisdictions.

### Access to chemicals

The availability and access of effective, safe and cost efficient chemicals, particularly residual herbicides are extremely important for Queensland cane growing businesses. Until the advent of green cane trash blanket harvesting systems, virtually all cultivation for weed control on cane lands was by mechanical means. Herbicides such as Diuron, and tank mixes using other herbicides such as paraquat dichloride (Gramoxone®) and 2,4-Dichlorophenoxyacetic acid (2,4-D) are used to manage grasses, broadleaf weed and vines across the industry in conjunction with sugarcane best management practices. The cost to sugarcane production where these weeds are not controlled is estimated at up to \$100 per hectare per week and uncontrolled nutgrass (*Cyperus rotundus*) alone can cause yield losses of up to 30%.

As the Queensland sugarcane industry is adjacent to the Great Barrier Reef, there is concern that off-site movement of herbicides from run-off during rain events and the wet season can adversely impact water quality and therefore the resilience and health of the Great Barrier Reef ecosystem. This has led to significant environmental and political pressure to have the products reviewed and banned.

CANEGROWERS are supportive of the APVMA's ability to review registrations when concerns have been raised about the use or safety of a particular chemical or product. CANEGROWERS were not supportive of a mandatory re-registration process, as this would have had the potential to remove effective generic products from the suite of chemicals used in cane for weed control.

A reliance on "knockdown" products is not practical, given the wet season, timing of application, access to paddocks and the strong possibility of developing weed resistance. Cost and alternative

product efficacy are also important considerations. There are significant concerns if residual herbicides are no longer available or limited in their use, farmers would revert to mechanical cultivation which would see increases in soil loss and run-off and result in declining water quality.

*Role for Government*

- Reducing red-tape and implementing measures to improve efficiencies on chemical reviews and registration opportunities for new chemicals.

## 8.1 Enhancing Agricultural Exports

Sugar producers around the world receive significant financial support and assistance from their governments either directly or indirectly through policies that support domestic prices, as a consequence, the international trade environment for sugar is characterised by government intervention and a range of tariffs, quotas and other barriers that inhibit and in some cases prohibit market access.

There are no tariffs, quotas or other impediments preventing access to the Australian market for sugar, raw or white. The Australian government has the industry's full support in actively pursuing trade agreements that include provision for improved market access for Australian sugar in third countries. There is no doubt that the best outcome would be achieved through a new comprehensive multilateral WTO agreement.

As important as the Doha round is, given the status of WTO negotiations other regional and bilateral trade negotiations, such as TPP are very important to improving market access for Australian sugar. The interests of the Australian sugar industry are best served when trade policies enable the free flow of Australian sugar to other markets around the world. The immediate removal of the tariff on raw sugar in the Korea-Australia Free Trade Agreement (FTA) is an important step in achieving this outcome.

CANEGROWERS and the sugar industry are strong supporters of the Trans-Pacific Partnership (TPP) negotiations and the opportunities to improve access to markets for Australian sugar. Improved market access is essential to improving export opportunities.

Sugar was excluded from the US-Australia Free Trade Agreement (FTA) and, while some concessions were achieved, the recently concluded Japan-Australia Economic Partnership Agreement (EPA) will not result in any commercially worthwhile improvements in market access or the terms of trade for Australian sugar to Japan.

### Regional Trade Agreements

The Trans-Pacific Partnership (TPP) and Regional Comprehensive Economic Partnership (RCEP) are two regional trade agreements in negotiation. If the Australian economy is to build on the strength of its internationally competitive industries, it is important that commercially worthwhile improvements in market access for sugar are included in these regional trade agreements. The outcomes negotiated on a bilateral basis with the US and Japan, the two largest economies in the TPP, and, in the case of Japan, one of the largest RCEP economies cannot be repeated.

With sales to Korea, Japan, Malaysia, Indonesia, Taiwan, China, New Zealand and the USA, East Asia is Australia's largest sugar export destination. Sugar must be able to be freely traded amongst all TPP and RCEP member countries. This means commercially worthwhile improvements in market access opportunities for sugar must be included in all regional trade agreements.

Our vision is for raw sugar produced in Australia to be refined in another member country of a regional trade agreement, blended with other products in a third country and transformed into a final product elsewhere in the region, before being further traded and sold as a final product elsewhere in the region.

There is scope for the full inclusion of sugar in the TPP and RCEP. Enabling product to flow freely around the regions will improve security of supply and meet customer needs in a strong price environment.

Achieving commercially worthwhile outcomes is key. This means securing real increases in market access, not artificial increases triggered only in the most exceptional of circumstances.

### China FTA

The Chinese economy is growing rapidly, incomes are rising and the country's middle class is expanding. With these economic changes diets are changing, consumers are demanding reliable supply of high quality product in greater quantities that cannot be met from domestic production. Chinese firms have invested in the Australian sugar industry in the expectation of supplying an unmet need.

The FTA Australia is negotiating with China provides an opportunity to remove the trade barriers that prevent Australia from competitively supplying raw sugar to China. While Australia's institutional arrangements for the sharing of market risks and rewards remains in place, including Chinese refiners in the portfolio of Australia's export markets through a commercially worthwhile market access outcome will deliver increased opportunity and additional value for Australian sugar exports. Australia will benefit from increased demand for our sugar and the stronger regional premiums that demand will create.

### Enforcing Trade Rules

The WTO Dispute Body's ruling that the European Commission was in breach of the European Union's WTO in relation to the export of subsidised sugar in the case taken by Australia, Brazil and Thailand shows that for trade rules to work they must be enforced. Implementation of the decision and the removal of subsidised sugar caused significant structural adjustment in the world sugar market and higher world prices.

### Role for government

- Improve market access for sugar in all new trade agreements, bilateral (China) and regional (TPP and RCEP).
- The agreements must:
  - Deliver commercially worthwhile improvements in market access from the commencement of the agreement leading to full market access over a short implementation period.
  - Eliminate tariffs and quotas that restrict access for sugar.
  - Establish rules that enable sugar and value adding products that contain sugar to move freely around parties to regional trade agreements.
- Provide sufficient resources to ensure compliance with trade rules and to pursue remedies when required.
- Communicate the benefits of trade and trade agreements to the broader Australian community.
- Ensure trade agreements deliver worthwhile new export opportunities and improved on farm returns by trade negotiators work more closely with industry to develop a complete understanding of the implications of prospective agreements.

## 9.1 Assessing the Effectiveness of Incentives for investment and job Creation

### Smartcane BMP

Smartcane BMP is an industry led, government supported world-class best practice system for cane growing across Queensland. CANEGROWERS secured \$3.5 million funding for development and delivery of the Smartcane BMP program in partnership with the Queensland Government. The Smartcane BMP program gives growers an opportunity to showcase that they manage their industry at best management standards which supports their business and environmental outcomes.

The Cane BMP program supports the following 7 modules:

1. Soil Health and Nutrition Management
2. Irrigation and Drainage
3. Weed, Pest and Disease Management
4. Crop Production and Harvest Management
5. Natural Systems Management
6. Workplace Health and Safety
7. Farm Business Management

Of the 7 modules developed under the Cane BMP program there are 3 key modules (Soil Health and Nutrition Management; Irrigation and Drainage and Weed, Pest and Disease Management) which are the focus of Government and community in terms of delivering water quality outcomes under the Reef Plan 2013.

In support of the Smartcane program implementation across the industry, CANEGROWERS has invested into 12 CANEGROWER districts for the employment and/or support services to facilitate grower participation in the Smartcane BMP program for a 12 month period.

The Smartcane BMP program was officially launched on the 3<sup>rd</sup> December 2013 and currently supports 361 growers managing 58,547 hectares. The Smartcane BMP allows industry to manage its sustainability and compliance through continuous improvement and best management practices that focus on productivity, profitability and stewardship outcomes.

#### Role for Government

- Endorse and continue to support the Smartcane BMP program.
- Allow industry to self-regulate
- Use the Reef Trust program to scale-up the adoption of the Smartcane BMP by the Australian sugarcane industry through the allocating of funding over the next three years.

### Reef Programs

The Reef Water Quality Protection Plan (Reef Plan) is a partnership agreement between the Australian Government and Queensland Government designed to improve water quality and therefore the resilience of the Great Barrier Reef through improved land management practices. Reef Plan 2013 is the third iteration of the program and the driver of a lot other policies and programs including Reef Rescue and Reef Trust.

Reef Plan has a target of at least a 50 per cent reduction in anthropogenic end-of-catchment dissolved inorganic nitrogen loads and PSII herbicide loads in priority areas.

Priority Areas in order are Wet Tropics, Burdekin Dry Tropics, Mackay Whitsunday and Burnett Mary NRM regions.

Reef Plan 2013 is using both an innovative and targeted approach to deliver substantial change in anthropogenic nutrient, sediment and pesticide runoff.

Reef Rescue 2008-2013 has been a highly successful partnership between the Australian Government, rural land managers and natural resource management (NRM) organisations. During phase one of the incentive based program, 1598 sugarcane growers have received grants under the program worth \$54 Million. This was matched by \$71 Million of grower cash and \$19 Million of in-kind funds with projects focused on practice change for water quality outcomes in nutrient, sediment and chemicals.

The continuation of the Reef Rescue program has been supported by the Australian government. The Australian Government has also committed \$40 M to Reef Trust. Details of the program are still being finalized, however CANEGROWERS see Reef Trust as a positive program to support the Smartcane BMP and sustainability.

#### Role for Government

- CANEGROWERS want to see the continuation of the Reef Rescue program in some form with greater emphasis and direction given to industry delivery.

#### **Training**

The sugar industry has a history of providing high quality extension and training. Skills, training and education and the access to skilled people across the value-chain are important to the ongoing viability of the cane industry. CANEGROWERS has developed a workforce development / sugarcane industry training strategy to build a pathway of training and development for the whole sugarcane industry.

CANEGROWERS has partnered with Registered Training Organisations (RTO) to deliver Recognised Prior Learning, gap training and support for qualifications in agriculture that align with the workforce development plan and the cane industry's Smartcane BMP program. This has leveraged funding opportunities for industry to deliver training and growers to work towards qualification.

The challenges faced have been the limited number of RTO's that support agriculture and are present in regional Queensland. The availability of funding, lack of flexibility to meet specific industry needs, coordination of training with crop cycle needs and the ever changing framework / administration requirements at a national and RTO level.

#### Role for Government

- Allow more flexibility to the national training system.
- Training and extension activities for sugarcane need to be incorporated into the national framework
- Encourage Registered Training Organisations to work closely with Industry to ensure that industry can maximise the training it requires, in the form it wants and in a timely manner.

#### **Biosecurity**

Continued effort in biosecurity is important for the productivity and profitability of the Australian sugar industry. Managing established and endemic pests and diseases is costly and can have unintended off-site impacts.

Stopping the entry, establishment and spread of exotic diseases and pests is vital for our industry's future. If unchecked, yield losses would be high and devastating to industry productivity and profitability.

Severe pest and disease outbreaks in the Australian sugarcane industry have caused heavy losses to productivity. Outbreaks of Fiji leaf gall, orange rust, smut and canegrubs have cost hundreds of millions of dollars and have impacted on farm management methods as well as the SRA plant-breeding program.

With a significant proportion of the Australian sugar industry lying adjacent to the Great Barrier Reef we are continually evaluating and researching best-practice disease and pest management systems and processes to minimise the environmental effects of cane farming.

These systems need to be within an Integrated Pest Management (IPM) approach that relies on resistant varieties, good farm management practices, including timely agronomic practices, managing adjacent areas that harbour pest; using fallows and break-crops, harvesting practices that minimise billet loss, and applying any necessary chemicals responsibly and strategically. They also need to be underpinned by the development and implementation of diagnostic testing methods, appropriate quarantine and protection measures, chemical applications where appropriate, breeding of resistant varieties using new germplasm and ongoing monitoring of threat development.

#### Role for Government

- Continue to support biosecurity funding, surveillance and programs to limit the risk of pest incursions.
- Focus on Northern Australia, particularly Papua New Guinea and the Torres Straight regions where biosecurity risk to the cane industry is highest.
- Effective coordination with all levels of government and the cane industry

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