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1989 – 2014 Sunshine Sugar
Manildra Harwood Sugars
Celebrating 25 Years
100% Australian Owned

7 October 2014

Committee Secretary
Senate Rural and Regional Affairs and Transport References Committee
PO Box 6100
Parliament House
Canberra ACT 2600
Australia

Re: INQUIRY INTO THE CURRENT AND FUTURE ARRANGEMENTS FOR THE MARKETING OF AUSTRALIAN SUGAR

We thank you for the opportunity to make a submission to the above inquiry.

We acknowledge the terms of reference and have accordingly structured this submission addressing each identified issue but, in particular, addressing the changes that have happened in the Australian Sugar Industry and the flow on impacts to the New South Wales Sugar Industry.

A summary of our submission is as follows:

BACKGROUND

NSW Sugar is one of the oldest sugar industries in Australia with 508 growers and the industry employs over 2,200 people. **We are now the only Australian owned sugar refining business and also the only Bonsucro sustainably certified sugar enterprise.**

We have some serious concerns with the changes that are happening in the Australian sugar industry in relation to ownership and marketing. We are seeing actions that are impacting on our sustainability and believe that there are flow-on affects to the whole industry including growers.

ISSUE 1 - THE IMPACT OF PROPOSED (MARKETING) CHANGES ON THE LOCAL SUGAR INDUSTRY, INCLUDING THE EFFECT ON GROWER ECONOMIC INTEREST SUGAR

NSW Sugar has an open arrangement with our growers with pricing policies and procedures forming part of the Cane Supply and Processing Contract.

The arrangements are transparent.

Whilst pricing against the ICE #11 is an important part of the process there are other issues that are critical to the overall outcome. It is those issues and processes that need to be transparent to ensure all parties clearly understand the impacts of the decisions being made.

Selling into relevant expiries

A key to pricing outcomes is selling into the right expiries. In a rising market it is important to ensure that sales are being made with that in mind.

We are seeing evidence in the domestic market that Wilmar may be selling into expiries (spot prices) which are lower in order to attain a larger market share.

Effectively, Wilmar are taking away the opportunity for Australian producers to supply into the more attractive future prices.

The end result is that Australian producers (growers) are being disadvantaged.

That has to be a concern not only from the loss of opportunity but also if the transactions are included in the pooling arrangement in Queensland and will impact on the grower economic interest.

Premiums

The domestic market has historically provided premiums that are slightly above the normal world price.

We are again seeing these premiums being eroded or in some cases negated because of the aggressive activities of Wilmar and in some cases importers.

This has a flow on impact as indicated previously throughout the industry

ISSUE 2 - EQUITABLE ACCESS TO ESSENTIAL INFRASTRUCTURE

We are concerned that the proposed marketing changes will restrict the ability of NSW Sugar to export.

Wilmar Gavilon purchased the Brisbane Sugar Terminal in 2009 which obviously places them in control of an essential piece of infrastructure.

That is obviously a major concern to the NSW Sugar Industry but we are looking at other alternatives.

Historically New South Wales Sugar has been treated inequitably in the allocation of ownership and operations of transport infrastructure.

Perhaps the inquiry should consider why that has happened. New South Wales Sugar is in a position where it certainly has not been afforded equitable access to transport infrastructure and have concerns going forward with the proposed changes.

ISSUE 3 - FOREIGN OWNERSHIP LEVELS IN THE INDUSTRY AND THE POTENTIAL TO IMPACT ON THE INTERESTS OF THE AUSTRALIAN SUGAR INDUSTRY

Domestic Market

There has been a significant change in the stability of the domestic market partially caused by the high dollar allowing the import of both raws and refined sugar at prices below the cost of production but more concerning to NSW Sugar is the aggressive approach that Wilmar (Sugar Australia) have taken.

We are seeing domestic refined prices at very close to cost and in some cases below cost. In a lot of cases the premiums which are normally paid have been decimated and this flows back to the growers.

Wilmar have said directly to us that there is too much refining capacity in Australia and they made an offer to purchase all of our raws (which implies closure of the Harwood Manildra Refinery, reducing competition on Australia's domestic market). We respectfully declined.

Change to Sugar Refining drivers and impacts

The reason for the construction of sugar refineries in Australia was to process the raw sugar grown by our Australian growers.

Whilst the refineries were Australian owned the idea of importing either raw or refined sugar in preference to Australian produced was only ever considered by Sucrogen into Melbourne (usually in emergency situations) and we only saw minor quantities imported.

Although Sucrogen had started an import program in the year prior to Wilmar's buy out , the increase in the import program demonstrates that Wilmar's refining operation have a complete change in direction with little or no preference given to Australian Sugar.

Pricing practice

Wilmar have a practice where they make significant upfront deposits to secure sales to Australian sugar buyers. They are buying the contracts and locking in customers for extended periods.

More concerning is that the length of the contracts are clearly aimed at excluding Australian competitors for extended periods.

That type of action is anti-competitive, and is a threat to the New South Wales sugar industry and perhaps the Australian sugar industry. Smaller players like NSW Sugar do not have the capacity to undertake an upfront payment system.

Imported refined products from subsidised markets

According to ABS data there has been a significant increase in imported refined product into Australia.

Malaysia and Thailand are the major suppliers. Both have domestic sugar pricing systems whereby governments fix domestic sales prices, and at times of lower world prices, exports are effectively "dumped" into lower price markets.

In 2013 Thailand was the origin of 44% of all white sugar imported into Australia (45 kmt). In comparison, Malaysia accounted for some 21% of imports and 21 kmt shipped.

Some of this growth in Thai origin white sugar has been due to the largest Thai miller – Mitr Phol – also owning sugar mills in Australia, but having no Australian refining capacity. Mitr Phol has in the past five years rapidly modernised their white sugar production, storage and handling capacity in Thailand, and aggressively sought new outlets in Asia, Africa and Oceania.

Malaysia and Thailand both have subsidised systems which enables a profitable base from which to deliver imported products into Australia thus distorting pricing to the disadvantage of the Australian industry.

Access to the raw sugar market

There has been a reluctance by any of the companies involved in Sugar Australia (Wilmar and Mackay Sugar) to provide raw sugar to New South Wales sugar refineries.

We have been refused access.

There is no doubt that there is a very real risk that either Mitr Phol (importers) or Wilmar could use their dominant position to restrict access further.

We are able to purchase raws domestically from Rocky Point, Isis and Bundaberg as alternative raw sugar supply to New South Wales. A further change in ownership of Southern Sugar Mills where refiners (Wilmar) or importers (Mitr Phol) have further ownership could lead to a severe restriction on availability.

ISSUE - 4 WHETHER THERE IS AN EMERGING NEED FOR FORMAL POWERS UNDER COMMONWEALTH COMPETITION CONSUMER LAWS, IN PARTICLAR WHETHER THERE ARE ADEQUATE PROTECTIONS FOR GROWER – PRODUCERS AGAINST MARKET

The impacts of major foreign owners in the Australian sugar industry has left the industry (growers, some millers and refiners) exposed to unfair practices.

There is very little real protection under the Commonwealth Competition and Consumer Laws.

Almost certainly there is no protection for the growers.

Attached is a more detailed submission.

Thank you for the opportunity to make this submission and I would be pleased to elaborate further if required.

Yours truly

Chris Connors
CHIEF EXECUTIVE OFFICER

SUBMISSION TO THE SENATE

INQUIRY INTO THE CURRENT AND FUTURE ARRANGEMENTS FOR THE MARKETING OF AUSTRALIAN SUGAR

NSW SUGAR CANE INDUSTRY

The sugar industry has operated in northern New South Wales for more than 100 years, with 508 growers currently occupying some 34,000 hectares between the Queensland border in the north and Grafton in the south.

The sugar industry in NSW is important to the northern NSW region, accounting for some $230m of regional economic output and employing an estimated 2,200 people.

NSW Sugar was formed in 1978 when the cane growers of NSW joined together as a co-operative to purchase the three sugar mills from CSR.

Cane has been grown in northern New South Wales since the 1860's and many of the establishment families and subsequent generations are still participating in the sugar growing industry.

NSW Sugar is a co-operative owned by cane growers and operates three raw sugar mills and a sugar refinery in partnership with Manildra (50% each) which serve sugar cane growers in northern NSW.

Currently all of the Co-operatives sugar production is refined and supplied to the domestic market, making it a key supplier to many of Australia's major consumers of sugar. This may change with the domestic market under severe pressure from aggressive marketing.

The local industry has suffered major weather events in the last five years which has seen its throughput drop significantly. Normal output would be in excess of 220,000 tonnes of sugar which we are expecting to achieve again in the 2015 season.

NSW Sugar's (Sunshine Sugar) overall objectives is to help maximise the value of agricultural production for the members of the Co-operative (growers), by providing cost-effective milling and refining, as well as the effective marketing and sale of refined sugar.

Sunshine Sugar is the only wholly owned Australian sugar manufacturer and supplier of refined sugar products and provides growers ownership from the farm to the customer.

In 2012 Sunshine Sugar was the first refiner in the world to be awarded Bonsucro certification, the global metric standard for sustainable sugar production which aims to improve the social, environmental and economic sustainability of sugarcane production. This certification demonstrates our commitments to our communities and environment.

We have some serious concerns with the changes that are happening in the Australian sugar industry in relation to ownership and marketing. We are seeing actions that are impacting on our sustainability and believe that there are flow on affects to the whole industry including growers.

ISSUE 1 -THE IMPACT OF PROPOSED (MARKETING) CHANGES ON THE LOCAL SUGAR INDUSTRY, INCLUDING THE EFFECT ON GROWER ECONOMIC INTEREST SUGAR.

The New South Wales Sugar Industry has long recognised the grower's economic interest in the sugar produced from the cane they supply.

Our Cane Supply and Processing Contract defines the link between the price paid for the sugar sold and has specific policies and procedures defined which are reported against to the Co-operative Board, Canegrowers and Cane Supply Management Committees.

The system is an open book and allows growers to understand how their sugar is being priced.

Whilst pricing against the ICE #11 is an important part of the process there are other issues that are critical to the overall outcome. It is those issues and processes that need to be transparent to ensure all parties clearly understand the impacts of the decisions being made.

Selling against futures positions

An important part of the sales program in NSW Sugar's case is what raw sugar futures position we sell to the customer. The appropriate benchmark for pricing is for its full economic value, against the relevant futures contract for the timing of the sugar delivery. Clearly where a market is in contango (rising) it is better to sell into the later expiries. That is always subject to storage, customer requirements, finance costs and other matters.

From our refinery's perspective we are selling with a mark-up against that raw sugar price. If all refiners were consistent in the raw pricing then from a competitive perspective the raw component would not be the important factor.

From the co-operatives and grower member perspective the raw component is far more important.

In our situation it is the role of our sales team to not only get a sustainable price from the customer but to also ensure that the raw sugar price component is maximised.

It is therefore critical to be selling into the right expiries to deliver the best return.

We are seeing evidence in the domestic market that Wilmar may be selling into expiries (spot prices) which are lower in order to attain a larger market share. (against a different futures price than that relevant to the timing of the delivery, and thus lower than its economic value).

That may be in the interest of Wilmar's refining business but it has to place pressure on the raw sugar suppliers.

Wilmar do import both raws and whites.

If Wilmar are using Australian produced sugar in this way they are either attaining lower priced sugar or accepting a loss on the raws component or alternatively they are buying imported product purchased in the lower expiries.

Effectively Wilmar are taking away the opportunity for Australian producers to supply into the more attractive future prices.

The end result is that Australian producers (growers) are being disadvantaged.

That has to be a concern not only from the loss of opportunity but also if the transactions are included in the pooling arrangement and will impact on the grower economic interest.

Other Impacts

There are many other matters that need to be considered in attaining the best outcome for Australian raw sugar prices.

Storage – as with Qld, the NSW sugar needs to be stored for supply into the second half of the year.

Financing which allows for growers and millers to be paid in advance despite the end product still sitting in storage.

Managing crop and production changes.

The most important we see are the premiums that can be attained in the market place that subsequently flow through to the suppliers.

Premiums

The domestic market has historically provided premiums that are slightly above the normal world price.

We are again seeing these premiums being eroded or in some cases negated because of the aggressive activities of Wilmar and in some cases importers.

This has a flow on impact as indicated previously throughout the Australian industry.

ISSUE 2 - EQUITABLE ACCESS TO ESSENTIAL INFRASTRUCTURE

Infrastructure for exports.

We are concerned that the proposed marketing changes will restrict the ability of NSW Sugar to export.

Whilst New South Wales predominantly services the domestic market, the continued attack on prices within the domestic market means we have to consider exporting.

One of the reasons that the NSW industry constructed its own refinery was to offset the additional costs which are incurred in having to transport sugar up to three hundred kilometres to the Brisbane Terminal.

Wilmar Gavilon purchased the Brisbane Sugar Terminal in 2009 which obviously places them in control of an essential piece of infrastructure.

That is obviously a major concern to the New South Wales sugar industry but we are looking at other alternatives.

Having seen a history of decisions in regard to infrastructure and transport that were deliberately biased against the New South Wales operations does concern our industry when changes can lead to a monopolistic situation.

It is relevant to note the system that was previously in place was for Queensland Sugar (prior to QSL) to pay a freight allowance to mills throughout the industry including New South Wales. When this allowance was abolished each of the impacted Queensland mills were paid a compensation to withdraw the allowance. The New South Wales industry was paid nothing.

It is also of relevance that the process to allocate the shares in the Sugar Terminals was undertaken in a way that ensured New South Wales Sugar received no allocation of shares in the new entity despite having contributed to the building and construction and ongoing maintenance and operation of the terminals.

The handover of ownership from the Qld Government in 2000 was structured on a share allocation based on throughput. The period of throughput that was considered was from 1991 to 1997. Having been involved in the process I believe that ensuring that New South Wales received no allocation was one of the reasons that the period was selected. NSW stopped exporting through QSL in 1989 when we constructed our own sugar refinery at Harwood hence no allocation was made.

The terminals that were being handed over were constructed well before 1991 and were paid for out of deductions from the sugar prices paid to mills (and subsequently growers) including New South Wales.

Perhaps the inquiry should consider why that happened. New South Wales Sugar is in a position where it certainly has not been afforded equitable access to transport infrastructure and have concerns going forward with the proposed changes.

ISSUE 3 - FOREIGN OWNERSHIP LEVELS IN THE INDUSTRY AND THE POTENTIAL TO IMPACT ON THE INTERESTS OF THE AUSTRALIAN SUGAR INDUSTRY

Domestic Market

There has been a significant change in the stability of the domestic market partially caused by the high dollar allowing the import of both raws and refined sugar at prices below the cost of production.

More concerning to NSW Sugar is the aggressive approach, that Singapore based Wilmar (Sugar Australia) have taken.

Wilmar purchased Sucrogen in 2010 (formerly CSR).

Wilmar have said directly to us that there is too much refined capacity in Australia and they made an offer to purchase all of our raws. This implied shutting an industry refinery asset, and reducing competition on the domestic refined sugar market. We respectfully declined.

We are seeing domestic refined prices at very close to cost and in some cases below cost. In a lot of cases the premiums which are normally paid have been decimated and this flows back to the growers.

NSW Sugar is more than competitive with Wilmar, based on the domestic cost of production and particularly when we can deliver direct from our refinery to the customer.

What difference that makes where competitors are intent on driving Australian owned refiners out of the market place is yet to be assessed but it appears to be a major threat to the sustainability of the New South Wales sugar industry and its growers.

Change to Sugar Refining Drivers and Impacts

The reason for the construction of sugar refineries in Australia was to process the raw sugar grown by our Australian growers.

Whilst the refineries were Australian owned the idea of importing either raw or refined sugar in preference to Australian produced was only ever considered by Sucrogen into Melbourne and we only saw minor quantities imported. Raw sugar for Yarraville came from the Queensland producers.

Wilmar have focussed on importing significant tonnages of raw sugar into Yarraville. Their view is based around the bottom line. They will import if it means a better return or it creates an opportunity to undercut the local producers. At times, these import decisions appear to make little economic sense, paying much higher freight costs to import raw sugar from eg Central America into Melbourne.

ABS data shows Wilmar imported into Victoria shipments of raws which totalled 87 k mt in 2011 and 2012 period. A further 85 k mt was imported from 2013 to date. The imported raws flowing into Victoria are processed through Wilmar's refinery in Yarraville in Victoria.

In addition, a cargo of 42,000 tonnes was brought into Mackay in early 2011 to make up for impacts of La Nina in the North Qld region. We believe that some of this cargo was also transported to Wilmar's Yarraville refinery.

Although Sucrogen had started an import program in the year prior to Wilmar's buy out , the increase in the import program demonstrates that Wilmar's refining operation have a complete change in direction with little or no preference given to Australian sugar.

Pricing practice

Wilmar have a practice where they make significant upfront deposits to secure refined sugar sales business. Effectively they are buying the contracts and locking in customers for extended periods.

This type of practice is unusual to say the least and is not a common practice in Australia. The balance sheets of other sugar producers in Australia would limit this type of transaction.

More concerning is that the length of the contracts are clearly aimed at excluding Australian competitors for extended periods.

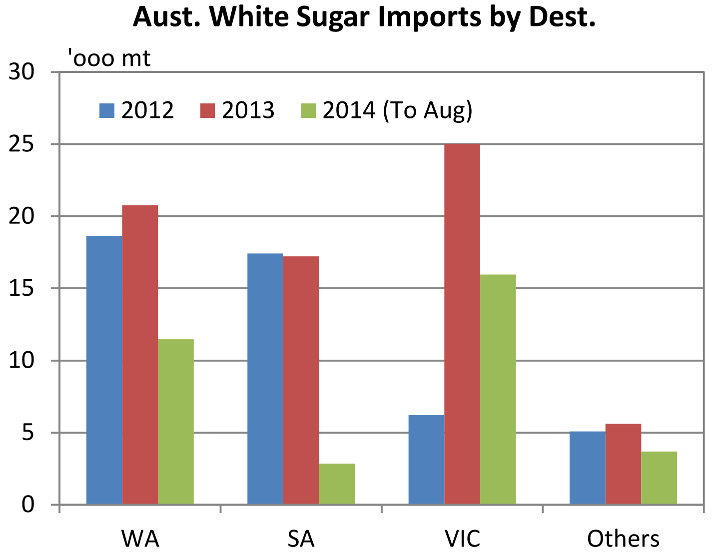
That type of action is a threat to the New South Wales sugar industry and perhaps the Australian sugar industry. Smaller players like NSW Sugar do not have the capacity to undertake an upfront payment system.

White Sugar Imports

According to ABS data there has been a significant increase in imported refined product into Australia as demonstrated in the table below.

The Western Australia market is always open to import pressure because of Australia's internal freight rates and the high Australian Dollar has also made the pricing more competitive.

We understand that some of the major users are importing as part of a dual supply strategy. We do have concerns that Wilmar is also bringing in imported refined products.



We have concerns that the imported refined products are coming from markets that are subsidised.

The Thai and Malaysian origins dominate white sugar imports, accounting for over 95% of all imported white sugar. In 2007, Malaysia was the major source of white sugar imported; accounting for 6.9 k mt out of a total of 8.5 k mt imported that year. While Malaysian imports have also grown, it has been the growth in Thai white sugar imports that has been extraordinary.

In 2013 Thailand was the origin of 44% of all white sugar imported into Australia (45 k mt), all in containers. In comparison, Malaysia accounted for some 21% of imports and 21 k mt shipped. Some of this growth in Thai origin white sugar has been due to the largest Thai miller – Mitr Phol – also owning sugar mills in Australia, but having no Australian refining capacity. Mitr Phol has in the past five years rapidly modernised their white sugar production, storage and handling capacity in Thailand, and aggressively sought new outlets in Asia, Africa and Oceania.

Malaysian sugar tariffs and system

Tariff Regulation - the Malaysian government levies a 0% tariff on imports of raw sugar. While there is a small (2.5%) duty on white sugar, imports are effectively controlled by the way the Malaysian government issues import licences. These are only issued to raw sugar refiners, not general importers, and refiners have little interest in seeing white sugar being imported into Malaysia. Therefore, while there is not a significant tariff barrier in Malaysia to imports other than raw sugar by refiners, there is a significant non-tariff barrier to white sugar imports in particular (the government only issues those import permits to raw sugar refiners).

Refined Sugar Prices - the sale of refined sugar in Malaysia is subject to a fixed price ceiling, an arrangement which is unusual these days, and leads to significant leakage of sugar from the country to neighbouring countries when global prices are high (and vice versa). Malaysia's retail white sugar prices are capped at RM2.80/kg (US$856/mt) – and this effectively acts as a fixed domestic price at a very profitable price.

Working from a base of a guaranteed profitable domestic base of close to 1.4 mln mt, the export of 20-30% of production allows for a very competitive export arrangement.

As a supporting document, the following is an extract from **Sugar Australia's (Wilmar's) submission to DFAT to export white sugar to Malaysia.**

> *The Malaysian sugar industry is highly regulated, with government control over imports as well as domestic white sugar wholesale and retail prices. The domestic sugar industry is managed under the control of the Ministry of Domestic Trade (MIT) with all issues of imports/exports under the guise of the Ministry of International Trade and Industry (MITI). This body oversees all imports and negotiates long term contracts for raw sugar imports on behalf of the domestic refiners.*
>
> *Malaysia has a small domestic sugar industry, producing around 110,000t of sugar per year. In order to meet domestic demand, Malaysia imports over 1.3 million tonnes of raw sugar, most of which is refined at two stand- alone refineries. These refineries use their surplus refining capacity to toll refine sugar for export. The quantity of refined exports ranges between100-300,000 tpa and is largely destined for Indonesia, Singapore and Philippines.*
>
> *Australia has historically had a large share of Malaysian raw sugar imports, servicing nearly three quarters of their annual requirements or close to 1 million tonnes per year. By contrast, the administration of Malaysia's existing import licensing structure create a trade barrier which prohibits Australia from exporting any white refined sugar into the Malaysian market. Imports are highly regulated and, provided a license to import raw or white sugar can be obtained from MITI; there is no duty on imports. However, these licenses are only issued to the refining companies who only import raw sugar and have a self interest in keeping white sugar imports out of the market. White sugar imports are therefore effectively excluded from entering the Malaysian market.*

Thailand

Thailand imposes a 65% in-quota tariff on a quota volume of 13,760 mt. Imports that are out-of-quota are subject to an out-of-quota tariff of 94%. The wholesale price for refined sugar is set at 19BHT/kg + 7% VAT (US$627/mt including taxes) while the retail ceiling prices is set at 22.85 BHT/kg including taxes (US$705/mt).

Again while not as high as the Malaysian guaranteed price it does establish an attractive base price for refined products.

Thailand is a major producer in the region, producing a total 11.3 mln mt sugar in total in 2013/14. Domestic consumption (at fixed domestic price) accounts for around 3 mln mt of that total, allowing for 8.3 mln mt to be exported. Of that tonnage, it is expected that around 4.2 mln mt will be exported as raw sugar, 0.5 mln mt as low quality white sugar, and 2.5 mln mt to be exported as high quality refined sugar. The balance maybe stored into the 2014/15 year. The Thai government fixes a provisional cane price each year before the harvest commences. If sugar prices rise, mills tend to obtain a windfall gain, and they are also required to contribute a fixed small fee/tonne into the government's Sugar Fund. When global sugar prices fall, the Sugar Fund (which is subsidised by the government) is supposed to utilise its reserves to make up the difference to sugar mills to allow full payment to farmers. What usually happens though is that the Thai government is forced to top up the Sugar Fund to allow mills to pay cane farmers. Since the Sugar Fund in 2014 was said to already be in deficit, it is quite likely that the government will be forced to subsidise growers by contributing again to the Sugar Fund to allow them to be paid. This is effectively a subsidy for cane payments for the benefit of the miller and refiner.

We are of the view that the imported sugar into Australia from Thailand is being subsidised to the detriment of the Australian industry.

ISSUE 4 - Whether there is an emerging need for formal powers under Commonwealth competition and consumer laws, in particular, whether there are adequate protections for grower-producers against market imbalances

The impacts of major foreign owners in the Australian sugar industry has left the industry (growers, some millers and refiners) exposed to unfair practices.

There is very little real protection under the Commonwealth Competition and Consumer Laws.

Almost certainly there is no protection for the growers.

ISSUE 5 - ANY RELATED MATTERS

Research and Development

The government would be aware of the recent changes made to sugar industry research and development sector and the formation of Sugar Research Australia.

With over 75% of the Australian sugar industry milling business now owned by foreign owned companies there is a significant question whether the investment being made is solely for the Australian sugar industry.

There is no real impediment for the foreign owners within the Australian sugar industry to utilise the knowledge and information that is being produced through the statutory levies to benefit their other sugar industry investments overseas. This effectively makes their other overseas interest more competitive based on Australian investment.

Disease Issues

The industry is spending significant funds on research into diseases. In some instances with very limited success.

Some of these diseases have down-stream impacts in the market place.

The Australian sugar industry has had a preference for pooling to manage the impacts of this type of disease. This means blending the impacted product with other sugar to dilute the impact and meet appropriate specification.

Moving away from an export pool arrangement will leave a number of producers exposed to significant discounts or having to deliver into lower priced markets.

End

http://abr.business.gov.au/