RICHMOND RIVER CANE GROWERS' ASSOCIATION LTD

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

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.

Our submission is as attached.

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

Yours sincerely

Wayne Rodgers
Chairman

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13th OCTOBER 2014

BACKGROUND

The Sugar Cane Industry in New South Wales is limited by climate to the three most northern coastal floodplains of the State, being the Tweed, Richmond and Clarence Rivers. The industry has some 378 cane growing businesses producing around 6% of the national sugar cane yield.

Richmond River cane growers hold around 15,000 hectares of land for production of sugar cane, with an average holding of round 90 hectares. The NSW industry accounts for $230 million of regional economic output with total employment estimated at 2,200 including 450 mill workers and 600 cane farmers. The Richmond River Cane Growers Association represents almost 99% of cane growers in Broadwater Mill Supply Area.

Sugar cane grown in NSW is processed at one of three grower owned mills located at Condong, Broadwater or Harwood. The mills are owned by the New South Wales Sugar Milling Co-operative Ltd.

The NSW Sugar Milling Co-operative is owned by cane growers. Currently all of the Co-operative's sugar production is refined and supplied to the domestic market, making it a key supplier to many of Australia's major consumers of sugar.

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.

The NSW 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, NSW Canegrowers and local Cane Supply Management Committees. Within this context the Millowner is required to manage the sugar pricing for Raw Sugar manufactured from the cane delivered by Broadwater Area Cane Growers with the objective of:

1. Undertaking pricing that will deliver cash profits for the NSW Sugar Industry
2. Minimising downside risk in the sugar price
3. Manage the amount of capital required to undertake pricing programs within reasonable limitations
4. Minimising the cost of pricing in balance with managing capital requirements.

The system is open book and allows growers to understand how their sugar is being priced. The importance of these transparent pricing activities is paramount to growers, given the impact sugar pricing has on the price they receive for delivery of sugar cane. The basis for cane payment is that sugar proceeds are split two thirds to growers and one third to the Miller. The sugar proceeds are directly related to the sugar pricing, and so the payment growers receive for cane delivered to the NSW Sugar Milling Co-operative is related to sugar pricing. A reduction in the price received for raw sugar will contribute to a reduction in the price a grower receives for sugar cane, and like any producer, this can only be sustained in the short term before the cane farmer is unable to continue to operate the farm.

It is for this reason that the NSW Cane Growers Association have serious concerns with the changes that are happening in the Australian Sugar Industry in relation to ownership and marketing. The NSW Sugar Milling Co-operative has reported to the NSW Contract Management Committee the premiums received for raw sugar are being eroded or in some cases negated because of the aggressive activities of Wilmar and in some cases importers.

The raw sugar price received is combination of three independent components:

- ICE#11
- Selling into relevant expiries
- Premiums achieved

The combination of these three components forms the final raw sugar price and so at any point in time the combination reflects the costs to produce sugar in the context of demand for sugar, and that includes the costs of growing sugar cane.

Given that the premiums received in the domestic market are entrenched into the long term pricing targets of raw sugar marketers such as NSW Sugar Milling Co-operative and others, actions to erode premiums and thereby reduce the raw sugar price to a level below the cost of production will bring about an unsustainable price, in both the short and long runs. Such actions are substantially damaging to the NSW sugar industry by reducing the price growers receive for sugar cane, and thereby reducing the long term viability of the industry and the 2,200 employees it engages.

ISSUE 2 - EQUITABLE ACCESS TO ESSENTIAL INFRASTRUCTURE

The NSW Cane Growers Association is 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.

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

Like other commodities with high transport and storage costs, sugar production gives rise to a natural monopoly, that is to say that sugar milling and refining is an industry in which it is most efficient for production to be concentrated in a single firm. Given this understanding the principles that are required to run an efficient sugar industry are enshrined in the Queensland Sugar Industry Act. The NSW Industry mirrors many of the practices for resource management which are enshrined in the Qld Sugar Industry Act, in particular the use of 'allotments' to establish a framework in which the use of land for cane growing is regulated to match the supply and demand for cane in a given mill area, with the intent of ensuring sustainable production and optimum efficient use of production capacity.

Given the large investment required to establish a sugar cane farming enterprise, this 'allotment' system gives confidence to existing and potential new growers that the market for sugar produced from their enterprise will be competitive, thereby allowing them to properly assess price risks. Being able to assess price risks and predict future gross margins is a critical operation in any enterprise and cane farming is no different. The Broadwater Mill industry area is currently implementing an expansion strategy designed to bring cane production into line with the target capacity for the Broadwater Mill. In order for this expansion strategy to be successful, existing and new growers need to be able to maintain confidence that they will be able to price their sugar cane in a competitive and fair market.

However, with the foreign ownership changes that have occurred, there are now market participants with a supply chain that operates outside these principles of efficient resource management, and together with subsidised production costs, foreign owned refineries are able to move preferences for raw sugar away from their logical supply area, ie. away from Australia, and refine raw sugar from other countries. Imported raw sugar, with its cost of production subsidised by country of origin subsidies comes at a lower cost of storage and transport, thereby making it economically desirable for foreign owned Australian refineries to purchase and refine imported raw sugar. The Australian refineries were constructed to process raw sugar grown by our Australian growers, and the 'allotment' framework was established to ensure sustainable and efficient production. The prospect that foreign owned refineries may be able to access imported raw sugar at subsidised costs is highly objectionable to Richmond River Cane Farmers on the basis that is brings about inefficient allocation of resources. This further jeopardises the expansion strategy for the local Broadwater Industry and therefore puts cost of production of sugar higher.

Also of concern to the Richmond Cane Growers Association are reports by our NSW Sugar Milling Co-operative that pricing practices which are anti-competitive in nature have been occurring and in fact our own NSW Sugar Milling Co-operative has been refused access to raw sugar from the Millowners with the largest market share in the industry, Wilmar and Mackay Sugar. Whilst an increased foreign ownership is not of itself of great concern to the Richmond River Cane Growers Association, a concentration of market power with access to subsidised raw sugar is of great concern to our members.

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.