Senate Inquiry: Current and future arrangements for the marketing of Australian sugar
Submission by Hon Bob Katter MP, Federal Member for Kennedy
October 2014

Monopoly power

Sugar needs to be milled preferably within hours of harvesting otherwise the sugar content in the cane drops dramatically. To produce a tonne of cane may cost a farmer around $37. Even at $.30 a tonne per km, and this is not an unreasonable transportation cost, any transportation over 40kms becomes prohibitively expensive. These two factors mean that cane must be sold to the local mill.

It must be understood that cane is unlike cattle, milk or grain - milk is worth $500 a tonne, cattle are worth $700 a tonne, grain is worth $200 a tonne. But cane, in sharp contrast, is worth only $37 a tonne. Therefore, a grower in Ingham, Far North Queensland, cannot afford to send his cane 200kms south to Ayr for milling or nearly 80kms to Tully the nearest northern mill.

Unlike other farmers cane farmer cannot 'withhold' this crop. Collectively or individually they cannot carry out a 'withholding' operation.

A cattleman can decide this year to keep his cattle and sell them next year. A grain grower can store his crop in silos, a wool farmer can store his wool and also sell next year. But the sugar cane farmer can't. Once the wet season comes, the sugar content (CCS) in his cane drops dramatically and standing over cane and harvesting it next year leads mostly to a very poor CCS result, quite apart from the fact that he has only one income for two years instead of two incomes for two years.

These factors create the perfect monopoly for the local sugar mill, unlike every other industry - the sugar cane farmer must sell each year and also must sell to his local miller.

It would strike me that no sane or responsible government could consider imposing a perfect monopoly upon every one of our 6,000 sugar farmers in Queensland. Yet this is what happened when the State and Federal Government's abolished statutory marketing – and deregulated the industry.

The power of the plantation owners and the mill owners in the early days of the industry resulted in the government doing their bidding. However, when the cane cutters won an arbitrated price for their wages (and since most cane cutters in the early 20th century were also cane farmers) as cane farmers they wanted the same principle – collective bargaining – to apply to themselves as cane farmers – the same principal that they enjoyed as cane cutters.

In the post war government the dominant figure was The Deputy Prime Minister Sir John McEwen. In his first speech in Parliament he said he believed that the working man had a right to arbitration. That there should be an arbitration commission to set a decent and reasonable wage for the working man.

But if the worker enjoys this right, then so to should the farmer. This was McEwen's first speech in Parliament. In his last speech to the Parliament after nearly 40 years, he said "My party has been able to deliver to all of our various farming groups marketing arrangements that have insured they may achieve a moderate prosperity.

Whether one agrees with this ideology or not it is irrelevant in the sugar industry, since only a person with mental difficulties would believe that a pure monopoly was a good and fair marketing arrangement". Yet that is exactly what has been imposed on this industry.

This Senate Inquiry should have as its major objective the re-establishment of a tribunal that can hear, determine, and set a fair market price as between the farmer and the miller. Otherwise the canegrowers are completely at the mercy of their local mill owner.

There must be a return to a fairness tribunal setting the price that the monopoly miller pays the farmer and a single desk seller to sell Raw Sugar (milled but not refined) into the world market.

The proposition put forward continuously by sugar milling interests is no farmer no cane – "*we need the farmers*". Well they actually don't:

Firstly, the millers can have corporate farms owned by the mills (though it must be said that this has not been very successful in Australia).

Secondly, farms in cane growing areas have a very high capital value. Because their farms have this high capital value farmers can trade at a loss going further and further into debt year after year. If a farm is worth $1.5 million (and this is about the average price) sugar cane is grown in highly sought-after areas predominantly between Mackay and Cairns – (the northern half of this coast line is referred to as the Paradise Coast) at $1.5 million farmers can trade at a loss of $100,000 per year for the next 10 or 15 years. And this is exactly what has occurred for the last 10 -15 years - the farmers have been working at a loss each year. The banks are happy to be financing this loss. Since it means that each year the banks will make ever increasingly higher interest income. This continues until the farmer eventually runs out of equity. He is then sold up and this "selling up" (not always but) usually leads to yet another windfall for the banks.

International Competitiveness

The average price for the 15 years up to and including 2008 was $309 a tonne (see addendum 1) which meant the farmer was on $29 tonne for his cane. I doubt if there is a single person in the sugar industry that believes that cane can be produced in the long term for under $35 tonne. The long serving President of the Canegrowers' Association Harry Bonanno, when he retired in his Valete speech, said the industry could not survive under $300 tonne. His counterpart in the Canefarmers Association, Warren Martin in his Valete speech in the same year made exactly the same statement . For the next ten years the industry was well below $300 tonne and during that period arguably only three mills went broke[i]. In other words the two dozen odd sugar mills left standing were able to survive with under $300 for raw sugar - the farmers did not. Statistics would indicate that nearly 1,000 of the 6,000 farmers left the industry. In other words, under the "current formula" even at prices below $300 a tonne, mills were still able to make money but the farmers weren't.

If farmers are given an arbitrated price then it is only fair that it is based upon the price the that the mill sells the sugar for. This means there is a necessity for a single desk seller arrangement for the marketing of our sugar on the world market. To illustrate the benefit for Australia and the industry, one needs to go to the wool industry.

Free Market-Good or Bad-Wool the first experiment

When the Statutory Marketing arrangements were introduced in the wool industry in 1971 the market indicator was 65 cents a kilo. Under the scheme introduced in 1972, the price climbed to 184 cents. By 1988 the wool marketing arrangements a sort of single-desk seller and minimum pricing scheme saw the market climb gently each year up to $7 per kg, in 1988 it had reached over $7.30 a kilo. Australia's income for wool in 1989 was $5.9billion.

The then Federal Treasurer, Paul Keating, a great champion of free markets undermined the scheme with a number of pronouncements. He then abolished the scheme. When the scheme was introduced we had 170 million sheep, just before the scheme was abolished these numbers had risen to 174 million sheep. Under Mr Keating's deregulated market arrangements, the income Australia received from Wool was $5.9 billion. By 2004 the nation's income from Wool fell to a meagre $2.4 billion. By 2002 the sheep herd had fallen to 99m. By 2010 sheep numbers had fallen to only 68m.

Possibly it was just coincidence the price raised through the roof under a collective market scheme; and maybe just another coincidence that when the schemes collective marketing arrangements were abolished the industry fell to pieces?

Where sheep men had an alternative of cattle, sugar cane farmers (mostly in heavy rainfall areas of North Queensland) have no alternative crop. The sugar industry production has been down over recent years by nearly 20%. Almost the same outcome that we saw in dairy deregulation -where 31% of our dairy herds has vanished following deregulation.

Unless the government is prepared to move on sugar, the nation's fourth biggest agricultural industry and still one of the top fifteen export industries, the industry shall continue a long term decline. There will be spikes and troughs (the last four years being one of those welcome spikes). Clearly ultimately sugar will go the same way as the wool and dairy industries.

The only reason there has not been a massive decline in sugar, is action by the State Labor Government to ban subdivisions. A policy that has been continued by the current LNP government.

If you're fair dinkum, let's have a Free Market for land

If governments truly believe in free market policy, then these farmers should be allowed to use their land for whatever purpose provides the greater return. And that of course would be subdivisions, whether for use as lifestyle or for dwelling blocks, or whatever other usage.

It is hard to avoid making a judgement that governments have been and are being influenced by the big sugar milling corporations ensuring that the farmer will continue to be chained to his plough until he is bankrupted and or terminates his life.

After the deregulation of the sugar industry, removal of tariffs, and the decision by government never to go to ethanol – those three things came together at one time and the industry subsequently suffered 1 suicide every 2 weeks; three years after dairy deregulation, one or other farmer was committing suicide every 4 days.

Loans of $700m a commitment to 'being seen to do something'

In the last two or three decades there has been the most rigorous and ridged imposition of, and compliance to, an all pervasive free market ideology. I am not aware of a single act by government in this period to alleviate the terrible burden carried by the Australian farmer. The $700 million in loans given (mainly by the ALP government) (and mainly administered by the LNP) were of very great benefit to the banks and only a very small benefit to the farmers. Those who took the loans went into further debt (most were carrying large borrowings at interest rates of 6% or more. The government loans were 4.5% but most farmers were still left with their main borrowings at 6%).

The government borrowed the $700m at around 3%. They should have loaned this money out at 2% and taken the 1st mortgage off the banks.

I speak with authority on this issue as I was the Minister with primary responsibility for QLD's State Bank (the QIDC) when the sugar industry was in great trouble in the 1980's.

In a very controversial action, the Chairman of the State Bank (who had continually refused to provide concessional lending to the sugar industry) resigned. We took the first mortgage and loaned the money at 2%. Upon recovery of the industry farmers were moved to full commercial rates of interest. QIDC having taken over all of the farmers debt. The QIDC which were now earning commercial rates of interest meant that (after this recovery) went on to make a considerable amount of money. This ADRB (Australian Development and Reconstruction Board) approach should have been taken by the State and Federal Government with the $700m loan monies.

In the last week, before writing this submission in NQ we had the suicide of 2 people involved in the cattle industry. We had 2 station properties sold up for nearly 50% less than the cattlemen owed to the banks (one of the two had suffered the loss of a close relative a year previously through suicide).

OECD and WTO Write the Inscription on the Tombstone

The last OECD report stated that farmers throughout the world receive 41% of their income directly or indirectly from government. The report stated that Australia was a very WTO compliant country and at 4.5% had the lowest farm support levels in the world.

The price for raw sugar per tonne in the EU for over a decade averaged around $1000 per tonne. The USA was over $660 per tonne. In this period Australia was receiving $309 per tonne. And when the world price was 7c per pound, the Thailand industry enjoyed over 20c per pound. The only other major producer is India. Indian farmers (all farmers) receive a government subsidy, on fertiliser alone, of $23,000m/year.

Ethanol is probably the most fatal blow to the sugar industry (see Addendum 2). Addendum 2 shows that outside of the oil producing countries only Australia and African countries do not have a mandatory bio-fuel content requirement. Finally the deregulation of the sugar industry and particularly the removal of the 41% tariff was undertaken in order to reduce the price of sugar to the consumer. The price to the consumer did not go down 41% in fact it went up from 104c per kg in 1990 to 116c per kg by 2002.

"True Lies"

When America took Brazil to the WTO claiming that Brazil had breached the WTO agreements by the introduction of Ethanol. The USA claimed this was a cross subsidisation of their sugar industry and thus breeched their WTO agreement and protocols.

When Brazil's sugar industry replied to the WTO Brazil effectively admited to a $1000m AUD cross subsidy, (this action was in the late 1980s/early 1990s). Brazil whilst admitting to the subsidy averred that they had no Indigenous oil supply and in addition had the two most polluted cities on earth Sao Paulo and Rio de Janeiro. Both then having populations in excess of 20m people. WTO accepted their arguments and rejected the American action on behalf of the USA sugar industry. That cross subsidisation effect continues in Brazil today.

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Brazil remains the dominant player in the industry and whilst prices for the 4 years up to 2012 remained reasonably buoyant, the 2011 high of 27c US/per pound has in 2014 collapsed back to 16.8c US/per pound (see addendum 1).

It will be recalled that Presidents Bonanno and Martin said the industry could not survive under $300 per tonne. CPI has risen very dramatically since the decade or so ago when these statements were made. It will be remembered that no one believes this industry can survive under $35 for cane to the farmer. It must be remembered that all farming and this probably is a bit more true in NQ, there is always a disaster coming down the line in every decade. Whether it is floods, rain at the wrong time, disease such as rust, smut, yellow cane, cyclones or even a bad plant variety. So whilst it may be possible to produce cane for $30 per tonne this price is in a perfect world where nothing goes wrong. In the four golden years the north got hit with cyclone and flooding while the southern industry got hit with a rust disease and variety problems. Since Bonnano and Martin made those statements fertiliser equipment costs and electricity have been arguably tripled. Water charges are a derivative of electricity and have, it is claimed, doubled. Di Ammonium Phosphate a major fertiliser is two parts ammonia (natural gas). Gas was $2.30 a gigajoule last year, next year it will be around $9.50. This 400% rise will be passed on into the cost of fertiliser.

Summary

We request:

1. A fairness tribunal (which operated successfully from 1929 into the late 1990’s) to deliver an arbitrated price (or a variation of the ‘*breakup formulae’* for cane payments). The ‘*breakup formulae’* decide how much the farmer is paid and how much the miller is paid.
2. A single desk seller for Qld sugar (since recommendation 1 becomes meaningless if nobody has access to the selling price of the sugar). In this submission we are not going to canvass the issue of transfer pricing, a mechanism that would make a mockery of the value of an arbitrated price. You will always, as the wool industry proved, secure a better price if you sell collectively and aggressively. If you don’t know what price it sold for, it’s very hard to argue what price it should be bought off the farmer for.
3. The introduction of a truly free market arrangement allowing farmers to subdivide, if government is not going to provide an arbitrated price, nor a single desk, nor ethanol then banning of subdivisions becomes the grossest of injustices.
   In my opinion - and the opinion of Harry Bonanno and Warren Martin, farmers will continue to run at a loss and governments and the banks will have on their conscience the continuing high suicide rates in rural Australia.

Let me conclude with the words of our National Anthem - *Golden Soil and Wealth for Toil* – Well you can toil all your like in this industry but you won’t get any wealth. And let it be on the conscience of people in government, because it was government who imposed a monopoly for the benefit of foreign milling corporations at the expense of the Australian farmer.

Graeme Connors wrote the song sung at the Sydney opera House to commence Australia's celebration of 200 years of settlement.

We often lower the coffins in NQ to another one of his songs '*Let the Canefields Burn'* –as a farmer self immolates in his Canefield he sings,

Let the Canfields burn.

Let the politicians and the bankers.

Look up at the glow in the sky.

Let the Canefields burn.

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Addendum 1

	Overall Queensland Average Price		
1994	382.29		
1995	371.22		
1996	334.59		
1997	335.08		
1998	352.29		
1999	254.50		The 15 year average (1994 to 2008) inclusive average $309/tonne
2000	253.00		
2001	331.60		
2002	276.70		
2003	231.88		
2004	255.84		
2005	322.22		
2006	367.99	QLD Discretionary Pool	
2007	275.80	QLD Discretionary Pool	
2008	333.58	QLD Seasonal Pool	
2009	510.89	QLD Seasonal Pool	The 5 year average (2009 to 2013) inclusive average $459/tonne
2010	443.99	QLD Seasonal Pool	
2011	518.16	QLD Seasonal Pool	
2012	429.77	QLD Harvest Pool	
2013	389.19	QLD Harvest Pool	

2014 latest quotation 16.81c per pound

From 1996 season, the basis on which payments were made changed to the International Pol Scale (IPS).

Source: Queensland Sugar Limited

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Addendum 2 – World Ethanol Map

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[i] Nearly half a dozen mills closed, but they were consolidations.