SUBMISSION 12

21 July 2006

AUSTRALIAN SUGAR MILLING COUNCIL

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Inquiry into the State of Australia's Manufacturing Export and Import Competing Base Now and Beyond the Resources Boom

The Inquiry into the State of Australia's Manufacturing Export and Import Competing Base Now and Beyond the Resources Boom Review will focus on the state and future directions of Australia's manufactured export and import competing base. The Australian Sugar Milling Council (ASMC) note that the inquiry will focus on the impact of Australia's dominance in commodities export on the economy both now and following the resources boom, the state of the country's manufacturing sector including opportunities and challenges from the expansion of global trade and polices for realising these opportunities.

ASMC represents the interests of the ten sugar milling companies in Queensland. These companies operate 24 sugar mills and produce in excess of 5 million tonnes of raw sugar with a gross value of up to $2 billion per year. Eighty five percent of the sugar is exported through Queensland ports from one of the seven industry owned bulk sugar terminals. Sugar milling companies also produce molasses for domestic use and for export. Increasingly, sugar milling factories are becoming bio-energy hubs, capable of producing renewable electricity, biofuels and other specialty products. These downstream higher value products provide an opportunity for sugar mills to diversify – delivering more value to shareholders and suppliers.

Sugar milling, as with many other manufacturing industries, is a capital intensive operation. Increasing levels of capital expenditure is being directed towards investment into renewal energy in an attempt to improve the viability of the industry. Improved Government incentives for expenditure and expansion of the production of renewable energy will assist the sugar industry to remain competitive in the export market.

Sugar mills require a reliable supply of sugar cane and efficient harvesting and transport systems. Most sugar milling companies operate extensive cane railway systems throughout cane growing areas in Queensland to efficiently transport cane to the sugar mills in a timely manner for processing. Efficient and low cost transport operations including harbour and port operations are essential for ensuring competitiveness with other sugar exporting nations.

Queensland sugar mills directly employ in excess of 3000 people in rural and regional Queensland processing the 36 million tonne crop produced by approximately 4500 cane growing entities.

Expansion of the sugar industry can contribute to improving Australia's balance of trade. Australian Government policies that promote and support commercial operations and cost-competitive services and infrastructure are essential for the sugar industry to expand and compete globally now and into the future. The resources boom has created a number of key opportunities and challenges for the sugar industry, and a number of these of particular concern to the manufacturing sector are briefly discussed below.

Skilled Labour

Australia's resources boom has caused a major shortage of skilled labour with significant migration from traditional regional employers to the mining sector. This labour skill shift has impacted on sugar mills with many sugar milling companies finding it increasingly difficult to attract and retain employees, particularly in the engineering and electrical trades and in the engineering profession. As a result, manufacturing sites are experiencing significant costs from loss of experience, recruitment, retraining and overtime. The cost of capital projects have increased through both the high costs of contract labour and through delays associated with labour shortage. This is impacting upon the ability of manufacturing sites to take advantage on the better returns being experienced as a result of the commodities boom.

The labour shortage will continue to have an adverse impact on the manufacturing sector into the foreseeable future and is limiting the manufacturing sector's opportunities for both reform and expansion.

Labour shortages are not limited to skilled labour, with the industry being unable to fill both general worker positions and apprenticeship vacancies. There are significant vacancies for seasonal field and factory positions.

Whilst ASMC strongly supports significantly increased funding for the training of apprentices, the four-year lag to significantly increased trades availability limits opportunities in the short term. Whilst a system of competency-based apprenticeship training can shorten the length of time the trainee takes to gain their competency, labour mobility at the end of the traineeship often results in the employer providing the training losing the labour resource earlier to that employer's disadvantage.

The sugar milling industry cannot compete with the wages offered on isolated construction work or mine sites. The wage rate margin for mining and isolated construction compared to sugar milling reflects the value of diminished quality of life and that margin will always exist, often in a temporary manner during the construction phase or the life of the mine. Therefore the industry cannot compete during a short term boom at the risk of being left with an unsustainable wages margin following any ensuing commodities downturn.

There are opportunities to employ both local and oversees workers in the sugar industry. The development and implementation of policies that encourage workers to enter and remain in the manufacturing sector is essential to enhance the competitiveness of the industry and to support expansion. The provision of affordable training programs that enhance the use of skills remains a priority in the industry.

Improved Market Access and Free Trade

The international sugar market is a corrupt world market with significant barriers to market access and trade in some of the world's richest economies. These policies, designed to protect inefficient domestic producers, limit access of Australian sugar into these markets. The use of sensitive and special safeguard mechanisms to limit market access challenges the expansion of global trade for the manufacturing sector in Australia.

It is essential that the Australian Government continue to champion to the removal of barriers to trade. The Australian Government plays an important role in promoting free trade internationally and must continue to be a leading proponent in this area.

Opportunities to expand trade are provided through bi-lateral trade agreements with key Australian trading partners and it is essential that in the absence of real reform through the WTO, that Australia continue to pursue bi-lateral and multi-lateral agreements. Despite agreements in the last few years with the USA and Thailand, Australian sugar producers have yet to realise any significant increase in market access through these agreements. Agriculture (and sugar in particular) cannot continue to be excluded from the trade reform agenda.

The Australian Government must promote robust systems and Australia's trade capabilities in order to establish bi-lateral trade agreements that provide real opportunities for increased global trade for the manufacturing sector.   The bi-lateral trade agreement currently being negotiated between Australia and China provides a critical opportunity to improve access for Australian sugar into one of Australia's leading markets.

Infrastructure

Sugar milling is a capital intensive operation. Sugar mills have and continue to invest in the growth and efficiency of the operations. The value of most commodities (and sugar is no exception) decrease in real value over time (commodity booms not withstanding). It is imperative therefore that all opportunities are taken through increased economies of scale and improved productivity to ensure that costs decline at least at the same rate as the commodity value.

This is a challenging issue during a commodity boom.

The manufacturing sector, including the sugar industry, relies on adequate and affordable access to key infrastructure whether this be for transport (roads and rail), export infrastructure (ports and harbour facilities), water or energy.

The current commodity boom has highlighted some deficiencies in Australia's on-going development of key infrastructure, with much infrastructure being operated at or near capacity. This capacity constraint limits the ability to expand operations or reduce operating costs (through infrastructure provision cost increases).

The costs of infrastructure service provision continues to rise at or about CPI and this is particularly true of monopoly infrastructure service providers such as ports and water providers. The cost structures of many of these infrastructure managers (including Government Owned Corporations) do not provide incentives for cost reduction and as a result, base costs increase generally in line with CPI whilst costs in most other facets of sugar industry operations come under competitive pressures and decrease through improved management practices resulting from business imperatives.

To realise the opportunities of the manufacturing sector both now and after the current resources boom it is essential that Government policies and initiatives provide improved and competitive access to key infrastructure such as rail and road services, ports and water.

More investment in new infrastructure will ensure that Australia has access to low cost efficient services into the future.

Research and Development

In order to remain competitive the sugar industry needs to increase its productivity through innovation. Much innovation occurs as a result of targeted investment in research and development. Innovations in the sugar industry have resulted in significant cost reduction, the use of by-products for production of energy and biofuels and much research is continuing into the viability of alternative higher value products.

The Australian Government is a significant contributor to industry research and development through SRDC and CRC Sugar Industry Innovation through Biotechnology. The continuation of this is essential to foster innovation that boosts the industry's competitiveness. Government policies and initiatives that support the implementation of outcomes of research and development are essential in realising these benefits.

Reducing the Regulatory Burden

In the 2006 Report of the Taskforce on Reducing the Regulatory Burdens on Business – Rethinking Regulation, the Taskforce identified a number of elements of regulation that impose significant costs on business including manufacturing. This burden results in higher than necessary compliance costs reducing the competitiveness of the industry which must compete on a global playing field.

It is essential that the Australian Government through CoAG continue to implement the recommendations of the Taskforce and reduce future business compliance costs.

ASMC appreciates the opportunity to provide a submission to the Committee regarding this inquiry.