



Parliamentary Inquiry into the Development of Northern Australia

Australian Sugar Milling Council submission, 14 March 2014

Introduction

The Australian Sugar Milling Council is the peak industry organization for sugar milling in Australia. ASMC membership represents some 95 per cent of raw sugar production in Australia, and 6 of the 8 milling companies.

ASMC supports Northern Australia development and particularly increased agricultural production in the region. The Milling Council is currently developing a 30 year sugar industry strategy that is intended to complement current state and federal policies on increasing agricultural production and processing.

The sugar industry has a long history of production, milling and refining in Australia and has a significant investment in infrastructure across rural and regional communities, including farms, irrigation, sugar mills, cane railway networks, bulk sugar terminals and refineries (for both sugar and ethanol). Australia is the world's third largest exporter of raw sugar after Brazil and Thailand, with around \$1.5 billion in export earnings. The sugar industry is a cornerstone industry for many regional centres in coastal Queensland and New South Wales and is the key driver for economic activity in many of these centres. The industry employs more than 16 000 people and contributes to the skills base of the community through training of operators and tradespeople. For example there is an average of 300 apprentices in training at any time across the milling sector.

A global industry

With 80 per cent of raw sugar being exported, Australian sugar is 100 per cent priced on the world market and the industry operates in a globally competitive environment. The sugar industry's efficient transport and logistics systems help it to remain globally competitive. However the area under sugarcane and the amount of sugar produced in Australia fluctuates largely in response to global sugar prices. While sugar and molasses are currently the primary products from sugarcane, the industry is continually looking to diversification opportunities such as cogeneration of electricity, biofuels and other bioproducts.

Enhancing trade and other investment links with the Asia-Pacific

Securing a trading environment in which sugar flows freely is critical to the future of Australia's sugar exports. Sugar is one of the most globally distorted commodities traded, and Australian sugarcane farmers and mills are the only sugar producers in the world who operate without subsidies or price support mechanisms. Even with Asia's proximity to northern Australia, it is difficult to remain price competitive without free trade of sugar. Compromises on the inclusion of sugar in trade agreements also flow through to export market opportunities of potential alternative products such as biofuels and biochemicals into the future. Many competing nations have strong renewable energy policies which have



driven significant growth in their sugar industries, and provided a greater capacity for their sugar producers to weather the ebbs and flows of global sugar prices.

Addressing impediments to growth

The Milling Council believes there is opportunity for growth in the sugar industry, for both crystal sugar in response to the growing global food demand, and for a range of diversification opportunities. However, these require government support, including free trade agreements, policy support for renewable energy and biofuels, protection of land for agricultural production, access to cost effective water and electricity, and supply chain infrastructure and transport.

These policies and programs on their own are significant from a production and revenue perspective. In combination, they represent the pathway for industry growth and development that all of our international competitors are pursuing with the support of favorable policies by their governments. With diversified income of competitors in Brazil or Thailand as much as 20 to 30 per cent or more of milling operations, the Australian sugar industry must have access to these opportunities to remain internationally competitive. A supportive government and policy framework is essential to achieve this.

Policies across government portfolios need to support this range of options for industry growth. Current diversification products include electricity from bagasse, ethanol from molasses, and niche market products such as dietary fibre and sugar cane mulch.

Electricity generation and fuel production opportunities

Sugar mills have been generating renewable electricity from waste sugarcane fibre for approximately 100 years in Australia, meeting their own electricity needs and exporting excess electricity to local networks. This capacity has been expanded since the Mandatory Renewable Energy Target (MRET) was introduced in 2001, so that all sugar mills can export surplus electricity into regional distribution networks during the crushing season (June to November), and mills continue to explore investment opportunities to expand and extend generation capacity. There are some cogeneration projects that now generate for 50 weeks of the year, and are virtually baseload generators in terms of reliability.

Ethanol is currently produced from molasses at Sarina. Further development requires policy support (and certainty) for ethanol production and equitable market access. Australia is currently lagging many other nations on biofuel development and use, despite moving from being a net exporter of oil to being a net importer. Ethanol is not a drop-in fuel and relies on mainstream fuel distributors to blend it with petroleum based fuels, creating market access problems. An alternative option that could suit northern Australia would be to supply fuel directly to a large scale fuel user with long term needs, such as the defence force. The USA provides a model for this approach through their biofuels target for their defence force.

These and other diversification opportunities will feature strongly in the sugar industry 30 year strategy, and will underpin the targeted industry growth, particularly in the north.

Policy certainty is the key

Policy certainty and longevity is important for investment in growth. For the sugar industry, current uncertainty regarding the Renewable Energy Target is limiting the industry's appetite for further investment in cogeneration. Sugar milling companies that have invested extensively in increased cogeneration capacity have based this investment on a 20-30 year payback period. Increased agricultural production and particularly greenfield developments of cropping such as sugarcane requires access to cost-effective water and electricity, supply chain infrastructure and transport, long-term protection of cropping land from mining, urban or industrial development, and the ability to clear vegetation strategically to gain efficiencies. Water for irrigation is an essential component of a globally competitive sugarcane production system, but its use will be reduced where costs of the water itself or the electricity used to run the irrigation system becomes too high. Governments have invested in research and programs to improve water use efficiency in agricultural industries. This support needs to continue, and water (and energy) efficient technologies encouraged / implemented in greenfield developments.

Conditions for private investment and innovation

The approach to private and public investment in the development of northern Australia needs to consider the immediate and long term benefits for both the industry and the community (the level of public good) from that investment. A stable, successful industry can provide benefits for regional (and broader) communities over many decades. The sugar industry already provides significant economic and social benefits to many regional communities in Australia, both directly and indirectly.

Public investment in infrastructure such as water or transport, to enable the sugar industry (and other agriculture) to grow in northern Australia is a sound investment both for existing or new regional communities and for the Australian economy as a whole.

The sugar industry has the capacity to provide steam, electricity and biofuel for other industries, particularly in a greenfield development. For example, the generation of steam by the sugar industry can enable the co-location of other industries that require steam. Sugar mills also provide greater energy security through providing base-load electricity to their local communities. Some sugar mill owners have invested heavily in upgrades (\$300 million in the last 3-5 years) and are already providing year round baseload electricity for their local communities.

Infrastructure for the long term

The mill owned and operated cane railway system in many Queensland mill areas is another example of a private infrastructure investment that has significant public good. These mill owned and operated cane railways haul up to 30 million tonnes of sugarcane to mills over a six month period, keeping the equivalent of 18 000 - 25 000 heavy truck movements per day off coastal roads in the crushing season. This private investment from industry improves road safety and avoids millions of dollars in road maintenance each year. The replacement cost is estimated to be between \$1.5 billion and \$2 billion, and is a great example of investment in infrastructure delivering benefits over a very long term.

Likewise, the cost of building dams and irrigation infrastructure could not be borne by industry alone as the cost of irrigation including infrastructure establishment costs is prohibitive. However, water for irrigation is recognised as a limiting factor for agricultural production growth in northern Australia, and water infrastructure can provide long term benefits for a range of industries well into the future. This public good element needs to be considered when deciding on public-private contribution.

Declining government support for agricultural research, development and extension will limit options for development of northern Australia. The Australian Government matching investment in agricultural RD&E needs to increase to 1.5% gross value of production to meet the growing global demands for food and fibre and to capitalise on opportunities for diversification and innovative business growth for agribusiness and agri-based manufacturing.

Economic and social infrastructure also needed to support long term growth

The aging population of the workforce in the sugar industry is currently a concern for the industry, particularly considering a lack of succession planning for sugarcane producers. The cost of land and capital is prohibitive for younger people wishing to establish farming enterprises and options need to be developed to better enable young farmers to establish operations.

Although the availability of skilled labour may not currently be an issue in North Queensland, it needs to be considered in the long term. Sugar mills train more apprentices than they need, but these trades need to be better valued as an option for school leavers. Attracting more women to agricultural occupations may also help reduce fluctuations in availability of skilled workers.

The sugarcane plant is one of the world's most efficient converters of solar energy into chemical feedstock. It provides great potential for a range of products to be made from this plant that thrives in Northern Australia. These include the expansion of existing technologies, such as electricity and ethanol, but also other biofuels and biochemicals into the future. As such, the sugar industry has the potential to play a significant role in the development of northern Australia.