

18 March 2014

The Honourable Warren Entch MP
Chair, Joint Select Committee on Northern Australia
Member for Leichardt

By email: warren.entch.mp@aph.gov.au
jscna@aph.gov.au

Dear Mr Entch

CANEGROWERS submission to the Joint Select Committee on Northern Australia

Thank you for the opportunity to make a submission on the Joint Select Committee on Northern Australia – there are many exciting opportunities for development in Northern Australia. As you would be aware, the sugar industry has been the backbone of regional development in coastal Queensland for over a century – particularly in your electorate of Leichardt.

The Federal Government's 2030 vision of developing Northern Australia is commendable.

Northern Australia is the next frontier for the Australian sugar industry. Growing demand for sugar from Asia is encouraging the industry to expand. However, expansion of the sugarcane industry cannot be achieved without a concerted effort from all levels of government to focus on meaningful economic development.

Without a conducive environment to growth of key industries like the sugar industry, the opportunities currently available will remain opportunities and will not be realized. The CANEGROWERS submission details a range of issues and solutions from land use planning to infrastructure to taxation. Adopting all of the recommendations in this submission will ensure a prosperous future for the sugar industry as well as for Northern Australia.

Thank you for the opportunity to respond to Joint Select Committee on Northern Development. If you have any further questions, do not hesitate to contact me on

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Yours faithfully

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Brendan Stewart
CHIEF EXECUTIVE OFFICER

CANEGROWERS submission to Joint Select Committee on Northern Australia

Summary

- Future demand for sugar is expected to increase by 65% by 2030.
- Australia is in a unique position to expand our production to meet growing global demand.
- Future production growth in the Australian sugar industry will come from:
 - Western Cape York;
 - the Gulf of Carpentaria;
 - the Ord River Irrigation Area; and
 - coastal North and Far North Queensland.
- The Australian sugar industry is already heavily embedded into Asia.
 - East Asia is the major export destination for Australian raw sugar.
 - Asian companies have invested heavily into Australian milling assets.
 - More work can be done on improving market access for Australian raw sugar.
- Changes to government policy frameworks are required to ensure that development can occur in a commercial manner. Primarily, that:
 - Land suitable for agricultural development must be identified and protected in Statutory Regional Planning;
 - Vegetation and other environmental regulations must facilitate development of new cropping land;
 - Infrastructure charges are affordable and reflect only the prudent cost of supply;
 - Northern Australia is not at a competitive disadvantage due to the disparity in fuel prices in metropolitan and regional centres (the diesel fuel rebate plays an important role);
 - Ethanol excise and renewable energy schemes encourage value-adding onto existing agricultural commodities – value-adding in the sugar industry also has broader development outcomes;
 - Biosecurity protection for existing cropping areas remains a high priority;
 - New sugarcane varieties can be developed to suit potential sugarcane growing areas;
 - Finance to develop new sugarcane growing areas is affordable and accessible; and
 - The cost of insurance premiums does not remain prohibitive of future development in Northern Australia.
- Agriculture will not develop in Northern Australia if it is not profitable in both the short- and long-term.
- Infrastructure is needed and it must be affordable for users. Primarily:
 - Port, road and rail infrastructure is needed to export raw sugar; and
 - Water storage and channel infrastructure is needed to open up potential sugarcane growing regions for development.

Potential for growth in sugarcane industry

Future demand for sugar

Agriculture is a central to the economic and social fabric of rural and regional Australia. The Australian agricultural sector is undergoing resurgence as it responds to the rapidly growing demand for across the Asia-Pacific for food. The region's population is growing rapidly and incomes are rising strongly. In China alone, 20 million people a year are entering the middle class. As the economies mature consumption is increasing and diets are changing. People are demand more protein in their diet and they are choosing sweeter foods. The pace of change is accelerating and it is occurring right on our doorstep.

Key trends in the world sugar market (*Sugar in 2030*, Czarnikow Group 2011):

- World sugar consumption to increase from 168 million tonnes to 257 million tonnes by 2030;
- Asia to increase its share of global sugar consumption from 40 to 49%, cementing its place as the world's largest consumer;
- India's consumption will nearly double over the next 20 years, and Chinese consumption will overtake EU consumption by 2014; and
- India and China will account for 17.6% and 14.7% respectively of global consumption by 2030.

Future supply of sugar

North Australia's geographic proximity to the growing sugar deficit in the East Asia region provides the Australian sugar industry with a competitive advantage in both the sugarcane growing and raw sugar milling sectors. Australia has enormous potential to expand its sugar industry and develop several new, large areas of sugarcane production for export to Asia.

The largest potential for expanding the industry exists in Northern Queensland (based on the Queensland Agricultural Land Audit) and North West Australia, primarily around the Ord River Irrigation Area (ORIA). More work can be done by State and Federal Governments to find suitable soils and water storage opportunities for agricultural development.

Queensland Agricultural Land Audit (QALA)

The QALA is a mapping resource developed by the Queensland Department of Agriculture, Forestry and Fisheries to identify new areas of potential agricultural production in Queensland. The QALA's primary function (identifying new areas of agricultural expansion) is the first step in realising the Queensland Government's objective of doubling agricultural production by 2040.

Eight areas of currently undeveloped land (unused or used for grazing) across Queensland have significant potential for new sugarcane production. Each of these areas vary in size and have their own unique challenges for future development. These areas are:

1. Western Cape York (appendix 1)
2. Flinders River Basin
3. Burdekin to Bowen irrigation extension
4. Gilbert River agricultural area (currently being proposed for development)
5. Expansion of the Mareeba-Dimbulah irrigation area
6. Hells Gate Dam proposal (near Charters Towers)

7. Dalbeg to Milaroo channel expansion
8. Tully Millstream irrigation area

Ord River Irrigation Area (ORIA)

Development of Stage 2 and Stage 3 of the ORIA is another area that can be used for the expansion of the sugarcane industry. While this area has significant potential for expansion, there are unique challenges preventing the development of a large-scale sugarcane and sugar exporting industry in the ORIA.

The combined size of Stage 2 and Stage 3 of the ORIA is three times the size of the central sugarcane growing region in Queensland, encompassing all of the sugarcane growing area at Mackay, Proserpine and Sarina. An overview of the proposed ORIA developments have been included in appendix 2.

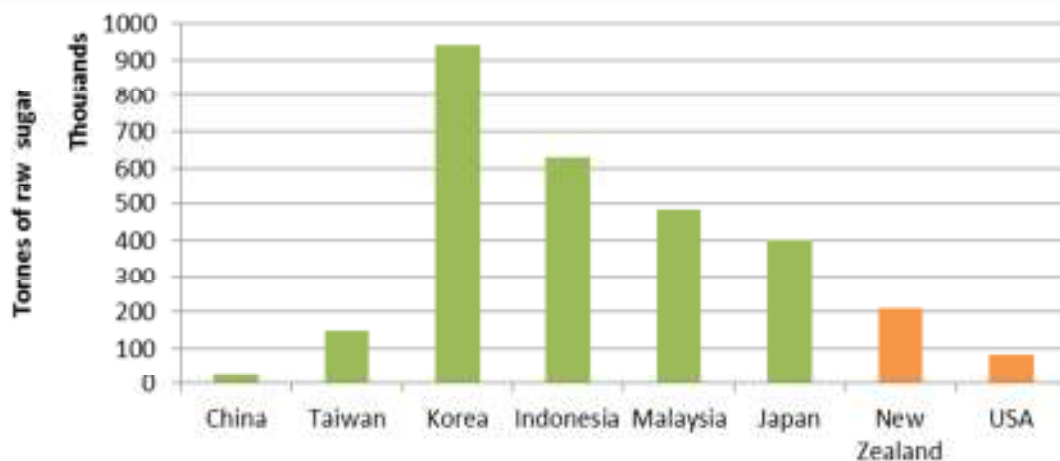
Trade and investment links with Asia

Asians largest customers of raw sugar

Through Queensland Sugar Limited Australia has a well developed export marketing and logistics relationship with East Asia. QSL is the industry marketing body which exports 80% of annual raw sugar production. The primary export destinations for Australian raw sugar are all within East Asia with relatively small amounts exported to New Zealand and the United States of America (figure 1).

Expanding sugarcane and raw sugar production in Northern Australia will enhance trade links with existing Asian customers. Further, significant increases in sugarcane and raw sugar production can be a tool to further relations with other countries within Australia's area of strategic interest who have a growing demand for sugar, such as: India, the Middle East and Central Asia.

Figure 1: Australian exported sugar destinations



Source: Queensland Sugar Limited (QSL)

International investment in the milling sector

The Australian sugarcane industry has recently experienced a large volume of foreign investment in milling assets across the Australian sugar industry. Foreign ownership of sugarcane mills has soared from 18% in late 2010 to around 75% foreign ownership after the sale of Sucrogen (formerly CSR) to Wilmar, Tully Sugar to COFCO, MSF Sugar to Mitr Phol and the subsequent purchase of Proserpine

Cooperative Mill by Sucrogen/ Wilmar. The only milling companies still owned by Australian cooperatives/companies are Mackay Sugar, the New South Wales Sugar Milling Cooperative and the Isis Central Sugar Mill.

Most of the new Asian owners of Australian sugar milling assets have invested heavily in improving milling efficiency and have a demonstrated interest in expanding their sugar interests in Queensland and North Australia. The investment that has occurred across the sugarcane industry shows that our Asian neighbours have confidence in the future of the Australian sugar industry.

Market access for sugar in trade agreements is important

The primary advantage of expanding the sugarcane industry in Northern Australia is due to its export focus, its capacity to store for a long time (raw sugar does not easily spoil) and its increase in global demand. However, the success of expansion of the sugar industry into Northern Australia is reliant on a free and fair trading platform.

The international trading environment for sugar is fraught with government intervention, tariffs and non-tariff trade barriers. These interventions, such as Japanese tariffs on the import of low-pol sugar, US sugar quotas and Indian export subsidies are a direct threat to the future viability of any expansion of the sugarcane industry in Northern Australia.

All future trade deals (including bilateral Free Trade Agreements and the Trans Pacific Partnership) must include improved access for sugar.

Conducive environment for growth

Regulations

Land use planning (example: Cape York)

The first major constraint on the future development of agricultural precincts in Northern Australia is the effectiveness of land use planning. It appears the default approach for future land use planning is to lock-up undeveloped (or underdeveloped) areas for environmental protection. This approach to statutory land use planning not only restricts the future availability of land for agricultural development, but it also scares potential investors by not providing certainty of tenure.

Example: Western Cape York

The *Draft Statutory Regional Plan* for Cape York (developed by the Queensland Government) proposes a network of “strategic environmental areas”. These areas, combined with National Parks, account for nearly 50% of the total land area on the Cape York peninsula.

In the proposed network of “strategic environmental areas”, open cut mining, all cropping activities and all regional water storage facilities (i.e. dams) have been deemed as “unacceptable land uses”.

It appears that the Queensland Government has not utilised its own findings regarding agricultural expansion from the QALA. If these “strategic environmental areas” proceed, the potential for the sugarcane industry to expand into Cape York will be more than halved from a potential 1.5 million hectares to less than 600,000 hectares.

Due to uncertainty around land tenure and a lack of recognition for future agricultural development, there may never be any meaningful development of sugarcane in Western Cape York. This would be a very unfortunate outcome for the development of Northern Australia.

Approaches to land use planning must change if state and local governments want to create a conducive environment to growth. Governments must acknowledge that there are limited opportunities for agricultural developments in Northern Australia – primarily due to soil quality and water storage capacity. Land identified as suitable for agricultural development by scientific soil suitability information (such as the QALA) should be used to protect land for future agricultural development.

Native vegetation protection

Native vegetation (and other environment) controls are a significant financial and regulatory road-block for future agricultural development. The current Queensland state legislation aimed at protecting native vegetation restricts clearing activities by geographical area (bioregion) and by plant species. Offset requirements are also onerous if the clearing involves endangered or of-concern regional ecosystem or threatened plant species.

The regulatory burden associated with clearing sufficient remnant vegetation to support a sugarcane mill and a critical mass of sugarcane farms (up to 30,000 ha) is cost prohibitive (particularly if offsets are required). The regulatory process is very complex, involving separate pieces of legislation and differing state government departments. There are also different approaches to native vegetation protection across the Queensland, Northern Territory and West Australian governments.

CANEGROWERS believes that expanding the area of land cropped for sugarcane does not necessarily result in diminished biodiversity values. In the sugarcane industry's experience, economic development and environmental stewardship can be complimentary – particularly in regards to wetland construction, maintenance, stream bank vegetation, aquatic habitat development and invasive species control.

To foster a conducive environment for expansion of the sugarcane industry in Northern Australia, vegetation clearing rules must change. A set of new vegetation clearing laws would need to be harmonised across jurisdictions and must not hinder or unduly restrict the development of new agricultural cropping lands and associated infrastructure. Put simply, the output of Australia's agricultural industries in Northern Australia cannot dramatically increase without a corresponding increase in the area of land under production.

Taxation

Infrastructure charges

Cost of production is a headline issue impacting on the viability of the Australian sugarcane industry. Recent and rapid increases in government fees and charges (particularly those relating to infrastructure) are eroding the underlying international competitiveness and profitability of the Australian sugarcane industry.

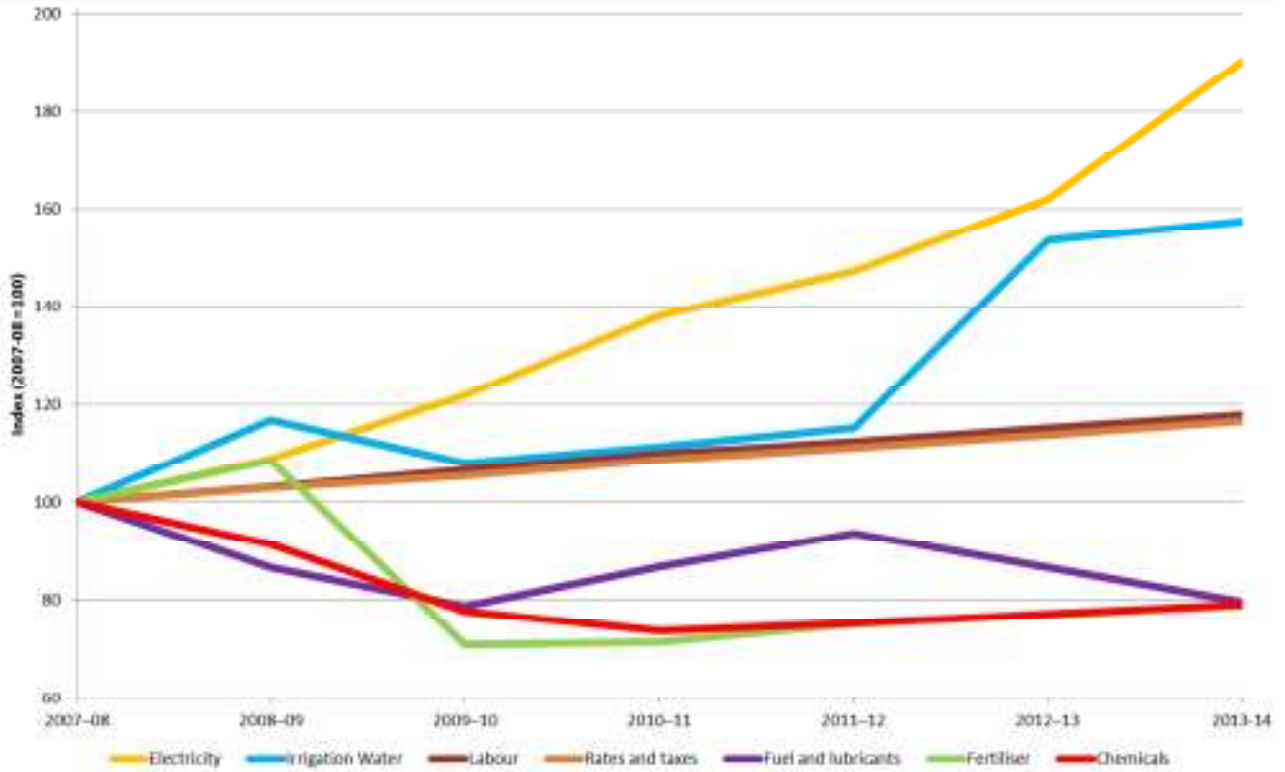
The two largest issues for the cost of production in the sugarcane industry is the prices of electricity and irrigation water. These vital farm inputs have nearly doubled over the past seven years, at a time when all other input prices have remained relatively unchanged or fallen (figure 2). The primary driver for these increases in prices has been the delivery of inflated and guaranteed returns to state governments for low-risk public utilities. These regulated returns are effectively a tax, where the price of a good is increased to provide a guaranteed revenue stream to governments.

The burden of regulated Queensland Government returns in electricity and water prices is significant. For example, the retail price of electricity in Queensland could be reduced by 23% if the Queensland

returned the dividends, corporate tax equalisation payments and debt fees from its network businesses (Ergon, Energex and Powerlink) to Queensland customers.

A further 16% reduction in retail price would be achieved if environmental policies (such as the carbon tax, the Small-scale Renewable Energy Scheme (SRES) and the Solar Bonus Scheme (SBS) were removed from the price of electricity and delivered out of general revenues.

Figure 2: Farm input prices (2007-08 to 2013-14)



Source: QCA, ABARES

Effective taxation through profit taking from state-owned water and electricity assets must stop if governments expect to encourage irrigated agricultural development across Northern Australia. The current regulatory framework delivering the guaranteed and inflated returns to state-owned electricity networks is controlled by the Australian Energy Regulator (a federal agency) and facilitated by “national competition” and “competitive neutrality” policies.

Fuel costs

The price of diesel fuel varies significantly between urban and regional centres. The average price difference between Australia’s major cities and regional centres in Northern Australia is 18.3 c/L (figure 3). This difference in price places development in Northern Australia at a competitive disadvantage, both internationally and domestically.

Figure 3: Comparison of metro and regional diesel prices

Metro	Price (c/L)	Regional	Price (c/L)
Brisbane	155.5	Darwin	173.9
Sydney	154.7	Cairns	168.3
Canberra	158.7	Cloncurry	177.4
Melbourne	155.9	Weipa	173.9
Perth	157.6	Broome	180.3
Average	156.5	Average	174.8

Source: CANEGROWERS analysis (price on 11/03/2014)

To develop a conducive environment to growth, the Federal Government should consider rebates (or reductions in excise) on diesel fuels in Northern Australia. The intent of this policy would be to equalise the cost of diesel fuels between metropolitan and regional areas.

As a part of this keeping downward pressure on fuel costs, CANEGROWERS supports the continuation of the diesel fuel rebate for off-road and agricultural uses.

Ethanol excise and LRET

To optimise the development of sugar cane in a greenfield areas, diversification opportunities (other than raw sugar) should be included in the sugarcane processing mix. International model of greenfield development with diversification (primarily cogeneration and ethanol production), followed by other bio-products is well established. However without an ethanol market operating as a base platform, the Australian sugar industry will struggle to realise the full potential of biochemical opportunities. Similarly, there needs to be on-going commitment to developing large-scale renewable energy facilities.

To encourage an environment of value-adding on traditional agricultural industries, the Federal Government can implement policies that promote value adding opportunities. With biofuel development, there needs to be retention of some form of excise treatment as a critical part of a range of policies that encourage uptake of biofuel. The retention of the LRET component of the Renewable Energy Target is important to developing sugar mills with significant renewable electricity generation potential.

The benefits of these policies would not only benefit the expansion of the Australian sugarcane industry – they would also prove to provide a secure, renewable fuel source for Northern Australia and provide a source of base-load energy generation for other domestic, commercial and industrial users.

Research and development

Biosecurity

The protection of the Australian sugarcane industry from infectious diseases, pests and other biological threats must be paramount. Stopping the establishment and spread of unwanted pests and diseases is vital. If unchecked, this is threat not only to the newly developed areas but to the existing industry. Potential yield losses from pests and disease would be catastrophic.

As a key part of developing a conducive environment to growth, managing the on-going risk of biosecurity threats must be appropriately considered.

Variety development

The Australian sugarcane industry has a world-class sugarcane breeding and selection processes. Each year, Sugar Research Australia (the industry-owned research body) plant about 100,000 new potential varieties as seedlings in the first stage of the program. The industry has released over 250 varieties in the past that have improved productivity, disease resistance and/or improved milling and sugar quality.

Development of varieties suitable for new production areas in Northern Australia is certainly possible, but requires resources beyond the means of Sugar Research Australia. To develop new varieties that will assist in the development of new production areas, funding is needed from State and Federal Governments. The development of a new cane variety takes in the region of 10 to 15 years, therefore there needs to be consideration of public investment sooner rather than later to enable any new development to have suitable varieties of sufficient quantity. This lead time would also apply to other research activities.

Improve financial markets

Access to affordable capital

Despite record low official interest rates, the cost of accessing finance (relative to expected returns) is prohibitive for many sugarcane growers. The cost of owning and establishing a sugarcane farm is particularly difficult for young sugarcane farmers or new entrants into the sugarcane industry. It appears that the risk inherent in a greenfield development would suggest that interest rates from commercial sources could be prohibitive to development. This is a real problem that is holding back the development of the sugarcane industry and will hold back future agricultural developments in Northern Australia.

A solution to this problem is to spread the inherent riskiness of capital raising for greenfield development in Northern Australia. If a source of capital which shares the risk in the lending terms is available, it will allow access to a greater number of investors (farmers) and enable development. This may be particularly significant in attracting young farmers and new industry participants.

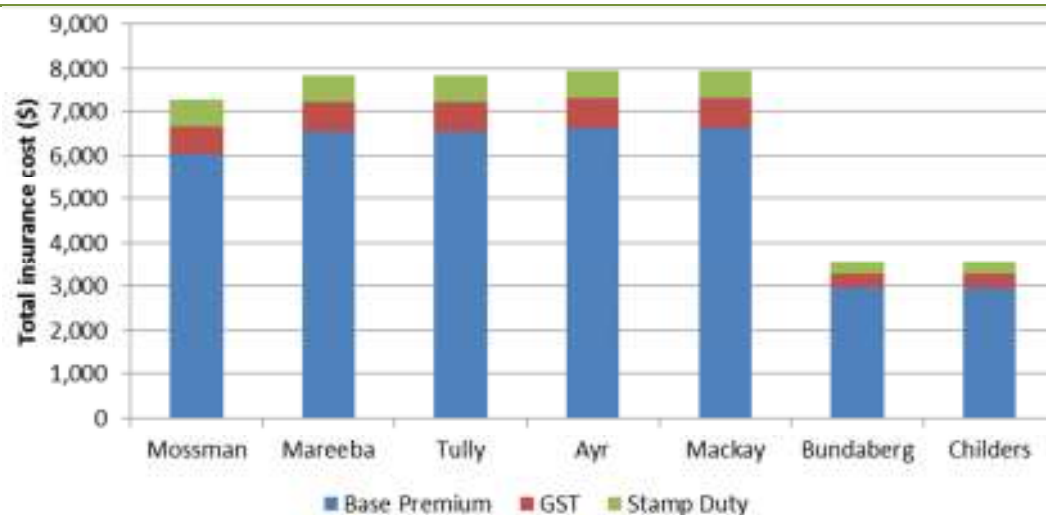
Insurance

The current cost of insurance premiums is potentially prohibitive for any development in Northern Australia. The cost of insuring a farm (including a residence, business liability, theft and machinery breakdown) already varies significantly between North and South Queensland (figure 4, overleaf) which reflects the risk perceived by the underwriters. The higher premiums attract higher GST and Stamp Duty charges add to the disparity in cost. Some sugarcane growers are now choosing not to insure, simply due to the cost of the insurance policies available.

To provide an economic environment that fosters development, action must be taken to reduce the cost of insurance premiums in Northern Australia. For example, efforts should be made to:

- increase the number of insurance underwriters servicing Northern Australia, to increase competition in the market;
- expand access to the Australian Reinsurance Pool Corporation to provide reinsurance cover following infrequent but catastrophic natural disasters;
- compile and provide research to insurance underwriters to remove asymmetry of information between farmers and insurers (base premiums on actual peril/risk); and
- investigate the necessity of direct premium subsidies, if necessary.

Figure 4: Insurance premiums across Queensland



Source: CANEGROWERS analysis

Conditions for private sector investment

Profitability and international competitiveness

The private sector will only invest in developing agriculture in Northern Australia if the ventures are profitable in both the short- and long-term, with an acceptable reward for risk.

To increase the attractiveness of developing new sugarcane production areas, CANEGROWERS has provided a range of suggestions throughout this submission that relate to reducing the cost and risk of establishing and operating an agricultural enterprise in Northern Australia. Further to the suggestions in this submission, the regulatory and financial burden of all state, local and federal government policies must be compared to international benchmarks, primarily with other major agricultural exporting nations like Brazil, Thailand, EU member states, the USA and India.

Infrastructure to support growth

Transport for export

Sugar is an export commodity with significant infrastructure and experience with the requirements for export. Success of expanding the sugarcane industry into new parts of Northern Australia will rely on the efficiency and cost of exporting bulk sugar. The three key infrastructure components of the sugar export freight task are roads and rail lines to ports and larger, more efficient ports. Private investors (both current and new industry participants) will not invest in new sugarcane growing areas and associated milling assets without reasonably priced road or rail access to a port.

All levels of government must work to expand existing port infrastructure and develop new transport links to these ports. The main ports (and associated rail and road infrastructure) that would need to be developed to facilitate expansion of the sugarcane industry in the eight identified areas for expansion Northern Australia are (appendix 3):

- Mourilyan;
- Townsville;

- Karumba;
- Aurukun;
- Mapoon;
- Weipa; and
- Wyndham.

There is also a local transport requirement to efficiently deliver cane from paddocks to a sugar mill. Due to the public benefit of moving large volumes of freight by rail, there are opportunities to discuss public-private investment partnerships between governments and milling companies to address these cane supply issues.

Water storage and channel infrastructure

Similar to export infrastructure, water storage and channel infrastructure is needed before the sugarcane industry can expand into new areas of Northern Australia. Other organisations (such as the CSIRO) are better placed to identify and design water storage and channel infrastructure based on crop water requirements. However as previously discussed, the infrastructure must provide water for irrigators at an affordable price to allow the industry to be competitive. This may require a phased approach to introducing cost components but it competitive price and should definitely not include large wind-fall gains to state-governments, beyond recovery of the cost of the infrastructure.

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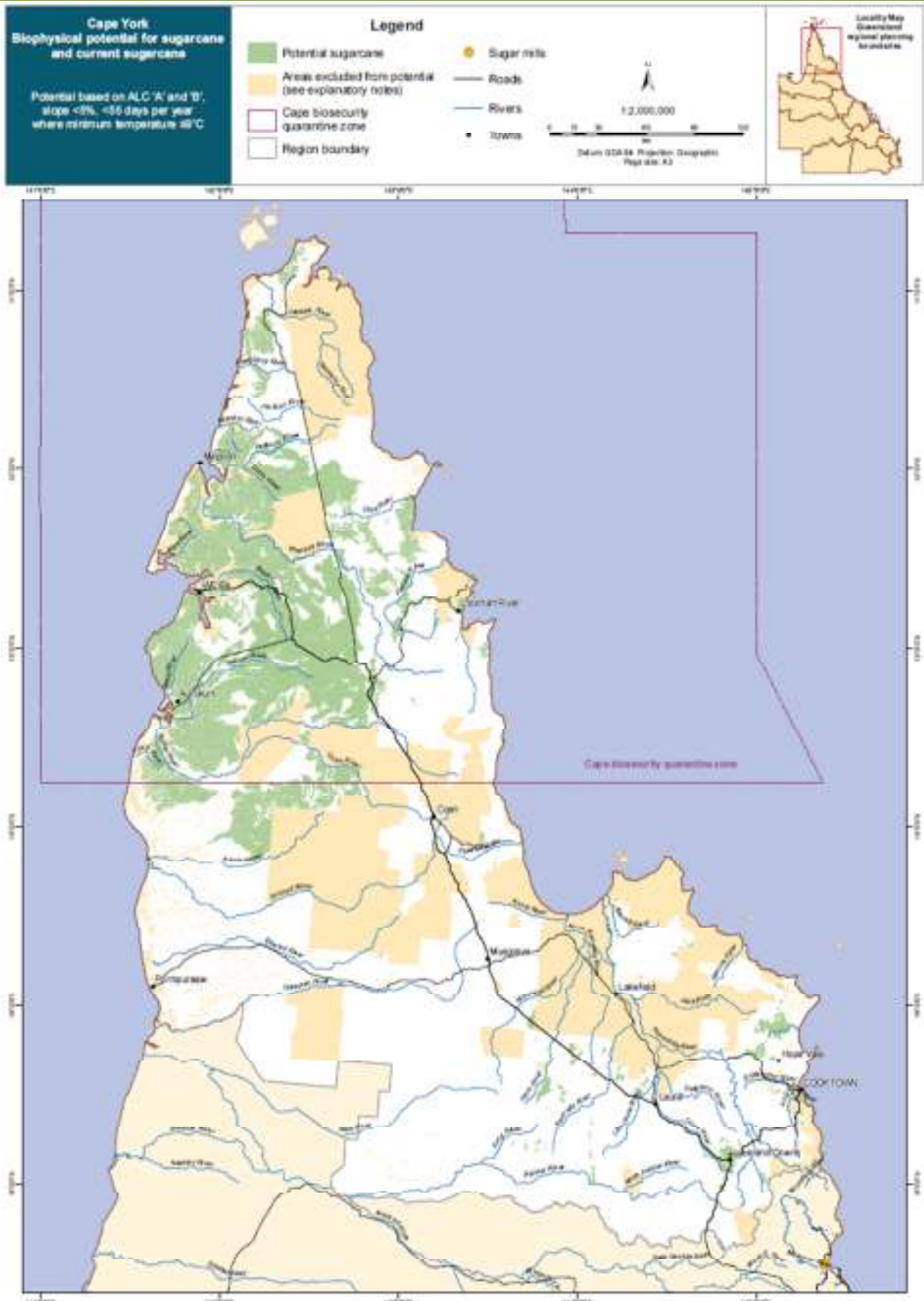
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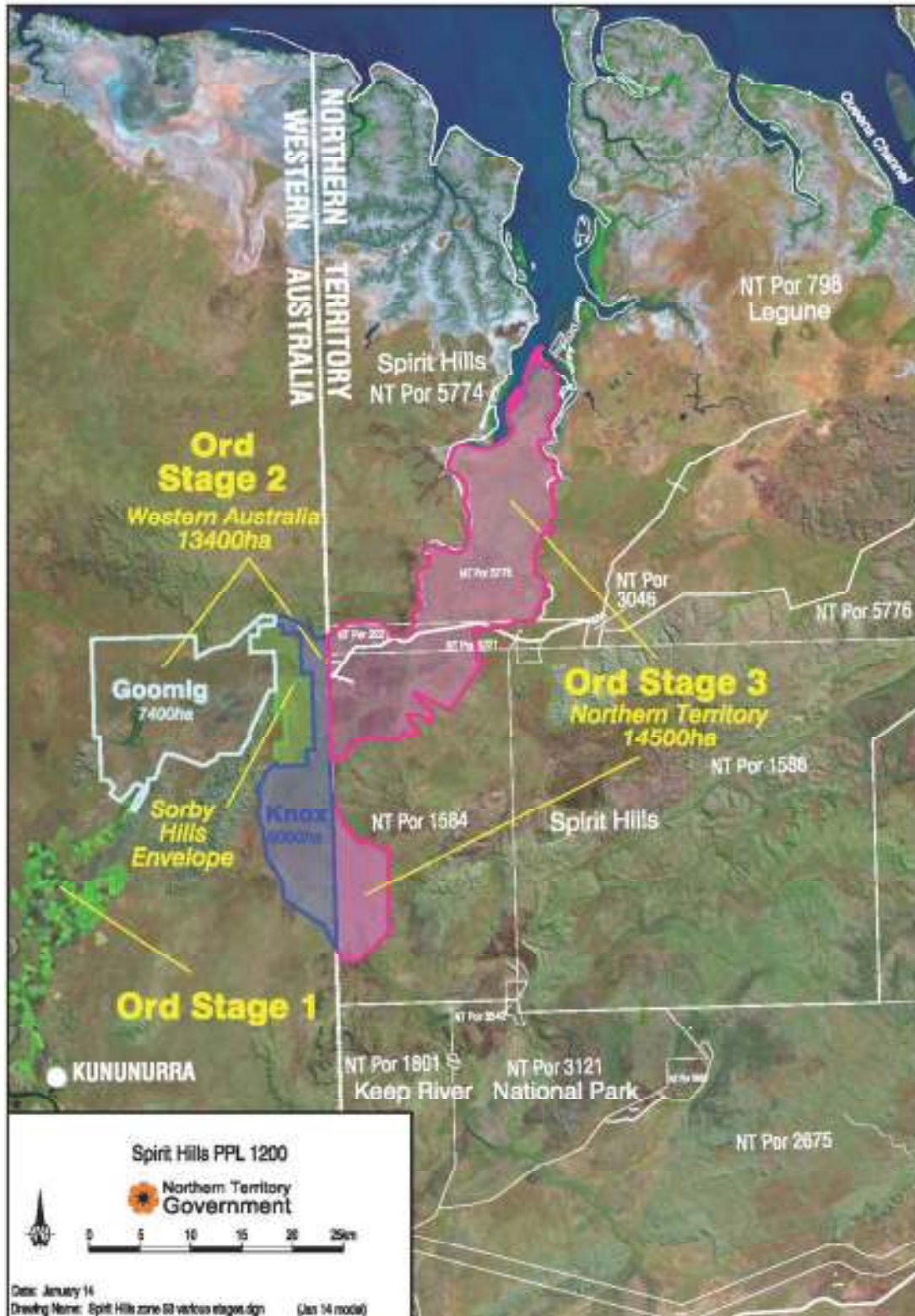
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Appendix 1: 1.5 million hectare potential for sugarcane development in West Cape York



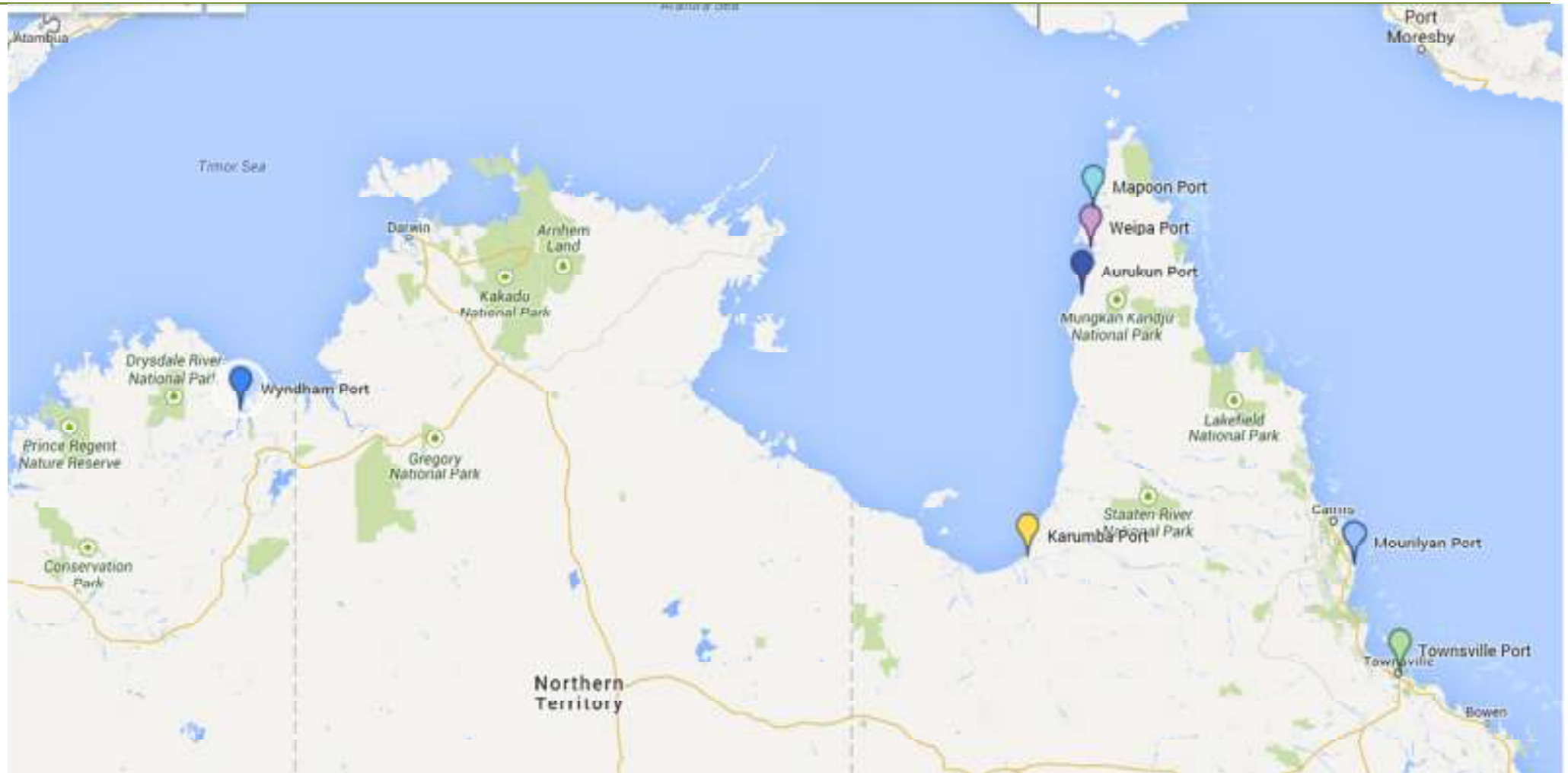
Source: Queensland Agricultural Land Audit

Appendix 2: Stage 2 and 3 of the Ord River Irrigation Area (ORIA)



Source: Northern Territory Government

Appendix 3: Future port development to unlock potential for development of the sugarcane industry in Northern Australia



Source: CANEGROWERS analysis