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

Dear Sir/Madam,

Terms of Reference and legislation underpinning carbon sink forests

We are pleased to attach a submission to the Senate Rural and Regional Affairs and Transport Committee regarding the impact of legislation on carbon sink forests on sugar cane farming land.

Yours sincerely,

Martin Jones

Inquiry into the Implementation, Operation and Administration of the Legislation Underpinning Carbon Sink Forests

CSR Limited has been operating in Australia for 152 years. The company is a leading diversified manufacturing company with operations throughout Australia, New Zealand, China and South East Asia. For the year ending 31 March 2008, revenues were $3.2b with capital expenditure of approximately $350m. The company essentially operates within four divisions. These comprise Building Products, Sugar, aluminium smelting, though our shareholding in the Tomago aluminium smelter and Property Development.

CSR Sugar is the 6th largest sugar company in the world. The sugar division is involved with farming activities, operates seven sugar mills in North Queensland and in a joint venture with Mackay Sugar Cooperative Association Limited, 3 sugar refineries, located in Melbourne, Mackay and Auckland. Each of the seven CSR sugar mills has a co-generation facility of some kind. Recently the sugar group extended its interest in power cogeneration using bagasse with an investment of $160m in the Pioneer mill. The project was made possible through the MRET scheme. CSR is the sixth largest generator of RECS under MRET and the Pioneer facility is the third largest in capacity installed under the scheme. An additional capacity of 300MW could be installed depending on pricing and the forward curve estimates under the 20% renewables by 2020 policy of the Rudd Government. However, the company also needs certainty that government programs such as the tax driven forestry MIS schemes won't undermine such investment.

At the Plane Creek site near Mackay, CSR Distilleries owns and operates an ethanol production facility which produces automotive grade anhydrous and hydrous ethanol which is further processed into products for the printing inks, paints, pharmaceutical, food and beverage industries to name a few. The plant to dehydrate ethanol was supported by a Federal Government biofuels grant and assistance from the Queensland Government. The facility uses molasses drawn from CSR's own operations in the immediate area and the Burdekin region together with product from other mills in the Mackay Region. The co-product of the fermentation process is generally known as dunder. CSR blends this with nitrogen and phosphorous to produce a complete liquid fertiliser used in precision agriculture, mainly for the sugar industry. CSR Ethanol has won numerous awards for this innovative and cost saving product. Recently the company won the NAB Agribusiness Award for Value Adding and the DuPont Innovation Award for Agriculture and Food production.

CSR is developing new projects to produce additional ethanol from sugar by-products for automotive purposes, bringing lower prices to motorists and reducing the pressure on oil. While the sugar industry has struggled in the recent past, the industry has completed deregulation and is well positioned to grow in strength in the future.

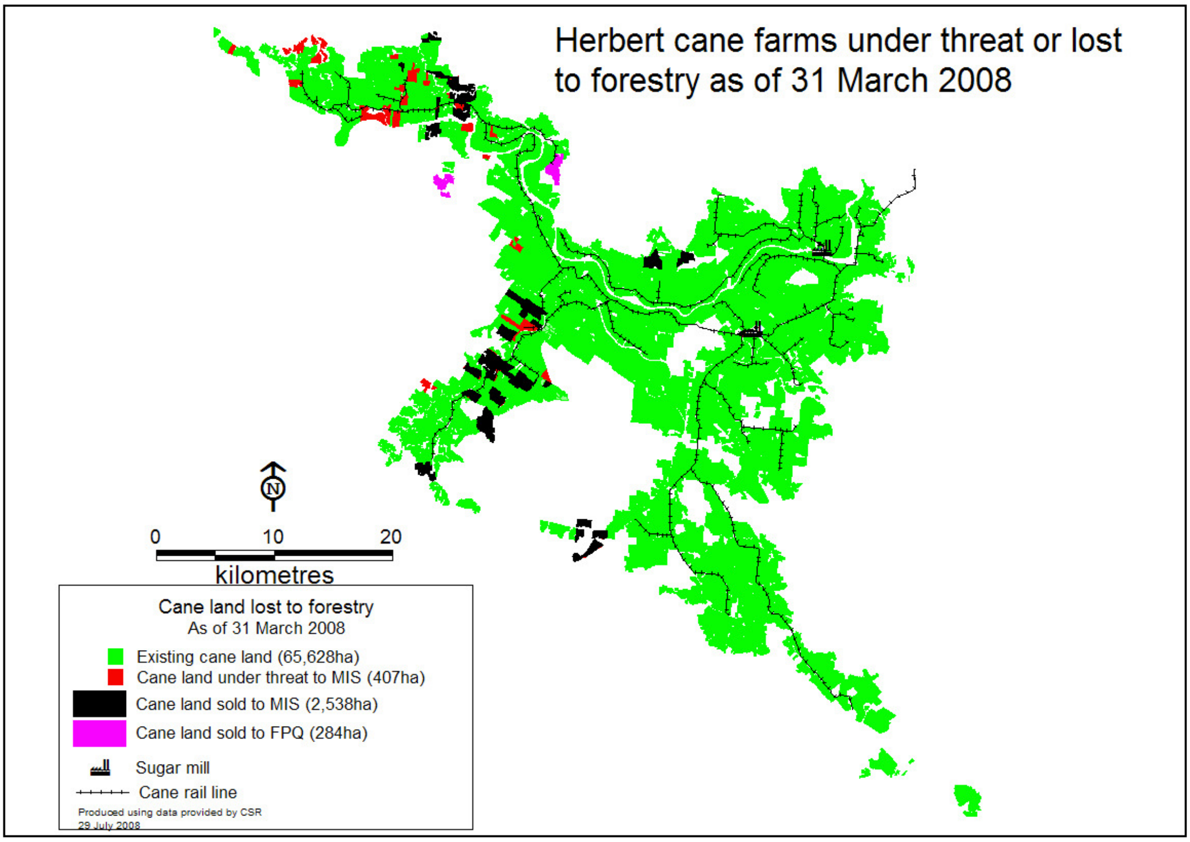
CSR Sugar is extremely concerned about the encroachment of forestry plantations on prime agricultural land. In particular, Forestry Managed Investment Schemes have been able to offer farmers prices for land that are well in excess of any value that could provide a viable return to agricultural enterprise. Once this land is lost from farming it is effectively sealed over for the life of the forest plantation – 15 to 20 years in some cases. At the end of the forest rotation there is a significant amount of refurbishment required if the land was to be returned to agriculture.

However, it will not be returned to sugar.

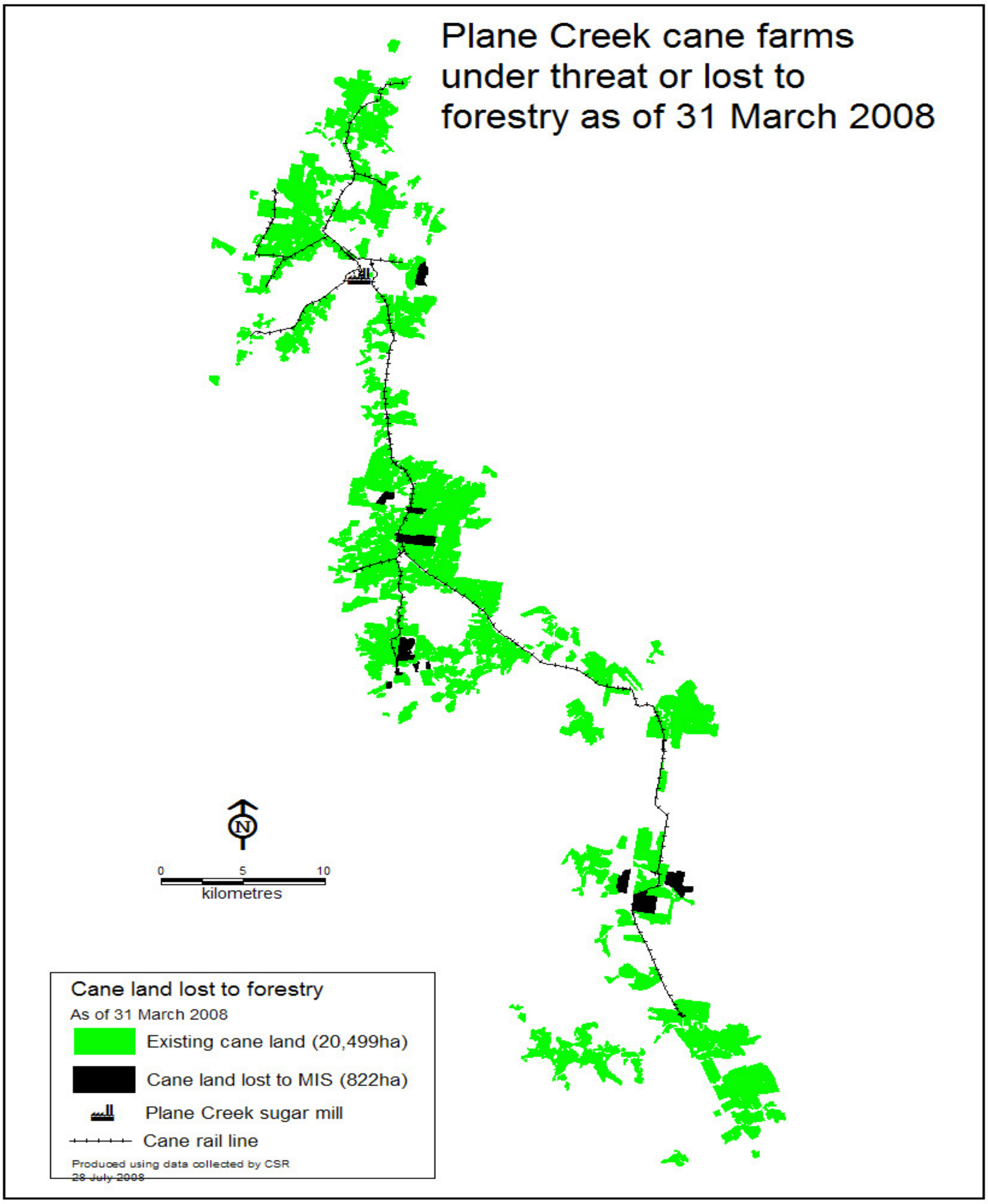
Sugar mills are high capital cost and high fixed cost businesses. They require high volumes of throughput to be profitable and profit comes at high rates of utilisation. Any loss of cane land reduces the viability of a sugar milling operation. ***Losing small amounts of land has a significant effect on viability*** and the cumulative effect of all the forestry MIS promoters is substantial. If the amount of land lost to forestry becomes sufficient it could result in the closure of the local sugar mill. Because of transport restrictions or capacity constraints, the remaining sugar crop is unable to be processed. Once closed, a mill is unlikely to ever re-start. The remaining cane farmers are stranded. There is more cane land available than forestry requires with limited alternatives for agriculture, particularly in rain dependent areas.

While the sugar industry is prepared to compete on the same footing as other agricultural enterprises,sugar, nor any other form of agriculture should have to compete with government subsidised forestry.

The CSR areas in which forestry MIS are most active, the Herbert and Plane Creek, have already seen significant losses of cane land. It is also likely that in the highly productive irrigation area of the Burdekin, that land may also be lost in the future. In the Herbert region 2,538ha representing over 200,000 tonnes of cane production has been lost to forestry MIS. In 2007 the Herbert mills crushed 4.3 million tonnes. In addition, other land has been lost to Forestry Plantations Queensland.



Similarly 822 ha of land in the Plane Creek mill area has been lost to forestry MIS. This represents about 70,000 tonnes of cane. The Plane Creek mill processed 1.45 million tonnes in 2007.



We anticipate further losses in the Sarina to Mackay areas of up to 20,000 to 50,000 ha, in Ingham to Mossman 20,000 to 40,000ha. The Burdekin remains unknown depending on developments for Sandalwood. It is expected that if this continues throughout all sugar growing regions of Queensland that this will place considerable pressure on sugar mills and the remaining cane growers in the affected areas.

The advantage derived by forestry schemes stems from rulings by the Australian Taxation Office ***allowing investors to claim a 100% up front tax deduction*** on their investment. This benefits high marginal tax payers and provides enough incentive to develop plantations which might not otherwise be viable. A viable agricultural industry without such favoured treatment cannot compete with such generosity.

This policy of upfront tax deductions will hollow out regional communities. Agriculture and sugar in particular, provides well paid permanent and seasonal jobs. CSR Sugar employs almost 1600 people full time and over 400 seasonally in Queensland. The Centre for International Economics in a report prepared for the Australian Sugar Milling Council found that local economies centred around a sugar mill stood to lose economic activity of between $32m to $111m a year if the sugar industry is replaced by a forestry industry. Furthermore, they could lose between 500 and 1000 thousand people or 200 to 400 households if forestry continues to make in-roads to sugar cane land. This would be devastating for small communities such as Sarina near Plane Creek. Furthermore it reduces the viability of CSR's value adding activities such as ethanol and cogeneration, which the government has been strongly encouraging.

CSR is encouraged that the Senate Standing Committee is taking an interest in forestry matters and in understanding the implications of policy on existing viable, well established, value adding agricultural enterprises.

We are pleased that MIS participants are excluded from the provisions of the Income Tax Assessment Act relating to capital expenditure for the establishment of trees in carbon sink forests. Forestry policy must take into account the loss of prime agricultural land. ***In determining legislation relating to carbon sink forests, we request that the Committee ensure that the establishment of these forests is not directed onto prime agricultural land***. Non prime agricultural land is available and this should be sought after for plantations.

CSR is of the view that the Government should abandon tax driven forestry schemes and leave it to the market to determine the most appropriate use of land.

We would be pleased to provide further background information if required.

Martin Jones
General Manager
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28/07/2008