Submission

to

The Senate Standing Committee on Rural and Regional Affairs and Transport

regarding

The Implementation and Administration of the Legislation Underpinning Carbon Sink Forests and Any Related Matter

by

Bundaberg Sugar Ltd

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1 Introduction

This submission is made to The Senate Standing Committee on Rural and Regional Affairs and Transport on behalf of the business interests of Bundaberg Sugar Ltd in North Queensland.

The submission identifies key issues which are within the scope of the Committee's inquiry regarding **the implementation and administration of the legislation underpinning Carbon Sink Forests and any related matter**. The inquiry being undertaken by the Committee will be a critical part of defining the future of sustainable commercial agriculture in the coastal areas of North Queensland. The key issues relate to the serious impact and ongoing threat which is presented by the establishment of forests funded by investors in Managed Investment Schemes which capture significant taxation advantages within the particular investment configurations available to these schemes. In particular the impact of forest establishment focuses on the sugar industry and the communities of sugar producing areas. These tax advantaged schemes have fragmented sugar cane supply areas in a way which presents a serious threat to the sustainability of important regional agricultural industries and related processing industries.

Bundaberg Sugar draws particular attention to the following issues:

- The fragmentation of cane supply areas where transport systems (particularly rail networks) are seriously compromised in their effectiveness for large scale transport of sugar cane.

- The reduction in critically important seasonal throughput levels necessary to sustain sugar milling economics.

- Consequential loss of sugar cane production and mill viability with closure of mills and disruptive effects on regional communities not well placed to sustain these impacts.

- Consequences of losing the substantial community benefit derived from the mill investments in rail transport of cane where this is undertaken by mills in coastal Far North Queensland, and subsequent transfer of cane to road transport.

- Significant distortion in land values and the ability of commercial farming businesses to compete against taxation advantaged forestry for it's land resource.

- The predictability of outcomes where forestry is replacing farming, and the ability to supply food from a diminishing area of good quality agricultural land in a landscape dominated by trees.

- The displacement of energy efficient and climate change combating crop production offering further potential to supply renewable energy and fossil fuel replacing products such as cogenerated electricity, bio-fuels and bio-plastics.

- The need to have markets operate within an environment where resources are allocated efficiently and competitively.

1.1 Further Information

Further information or clarification can be provided on any aspects of this submission. Enquiries should be directed to Mr Gary Longden, Bundaberg Sugar Ltd on (07) 4150 8500.

2 Bundaberg Sugar's Business in Far North Queensland

2.1 Bundaberg Sugar Ltd – North Queensland Operations

Within the Far North Queensland Region, Bundaberg Sugar operates three sugar cane crushing mills, owns and operates a sugar cane farming business comprising over 2,100 hectares of farming land, and owns and operates a commercial cane harvesting business.

The mills are Tableland Mill situated west of Mareeba on the Atherton Tableland which produces a concentrated sugar syrup for processing at coastal mills into raw sugar, Babinda Mill situated at Babinda approximately 50 km south of Cairns and South Johnstone Mill situated near Innisfail. The mills have a combined capacity of over 3 million tonnes of cane per annum. However, throughput has diminished over recent years from the permanent displacement of cane areas to MIS forestry, and through the temporary effects of cyclone Larry amongst other factors. Cane supplying Bundaberg Sugar's milling operations is principally produced by over 500 independent grower owned cane farming businesses as well as from its own cane farms in the region.

Bundaberg Sugar owns and operates farms from north of Babinda to south of Tully, and west to the Atherton Tableland. These farms comprise a total area of over 2,100 hectares, and have the capacity to produce over 150,000 tonnes cane per year under normal circumstances. Bundaberg Sugar has continued to invest in its farming business in the area through strategic consolidation of larger scale farming operations in important locations of its supply areas. A harvesting business on the Atherton Tableland provides commercial cane harvesting services to growers in that area.

Bundaberg Sugar is a substantial employer of local labour and utilises a large range of locally sourced materials and services within its business. Typical employment during the crushing season is over 500 people across all North Queensland operations and covering a wide range of skills. Bundaberg Sugar's manufacturing, processing, administrative and technical support operations based in the region offer opportunities for career links to locally based post secondary and tertiary education facilities attended by local students. The milling operations are significant employers of apprentices providing important trade skill training to local apprentices.

Opportunities available to Bundaberg Sugar's business in the region are very much dependant upon sustained cane production supplied to its milling operations, and decisions regarding future investment and operating strategies will be influenced by the direction in which this production base is seen to be moving. Bundaberg Sugar has been an active participant in the Australian sugar industry and is based on businesses which have been part of this industry for over 100 years.

2.2 Regional Economy & the Sugar Industry

The Australian economy has been experiencing an increase in growth over recent decades and significant restructuring has occurred in response to global economic trends. However,

some areas of the Far North Queensland region have been struggling to keep up with these changes and match the rate of economic growth experienced in other areas.

Many parts of the regional economy are, and will for the foreseeable future remain, dependent on agricultural production and its associated processing of agricultural products. Regional tourism has particular localised attractions and substantial economic activity principally concentrated around Cairns and coastal resort areas with links to the Great Barrier Reef and large World Heritage Rainforest areas. Away from these individual intense tourism locations, the basis of the region's economy, its social structure and community values are and are expected to remain fundamentally agriculturally based.

2.2.1 History of the Sugar Industry of Far North Queensland

The sugar industry pioneered the development of coastal northern Queensland and has formed much of the scenic backdrop which is characteristic of this part of tropical coastal Queensland for over 120 years. Since these early beginnings, the sugar industry has sustained extensive growth and restructuring of farming and milling businesses within a dynamically changing industry. Modern farming and milling methods have been able to use increased scale and efficiency to address increasing costs and competition in supplying sugar into an export market where price volatility dominates earnings. The industry also became the cornerstone for the development of important regional infrastructure including port and bulk storage and loading facilities which have been largely funded by this industry.

2.2.2 The Sugar Industry of Today

The industry of today faces increasing challenges from world market pricing, increasing international competition, revised regulatory arrangements, more demanding community standards and challenging business economics in both farming and processing. These factors have expedited change and restructure over recent years.

Sugar production remains a major component of the region's economy and the livelihood of much of the region's population. The value of raw sugar production alone to the region from Mossman to Tully is in the order of $230 - 250 million per year.

The industry is a significant user of local goods and services such as machinery supplies, fuel, transport, electricity, chemicals, fertiliser, banking, insurance, etc. and a multiplier effect of from 4 to 5 can be attributed to the total value of production.

Maintenance of economic viability for sugar production within the area is dependent on production of an adequate and sustained volume of sugar cane to ensure substantial fixed costs can be offset. Market prices as determined by the futures market for sugar offer worthwhile opportunities to sugar producers, and programs are now in place to see growers also take advantage of price risk management through the futures market for sugar.

3 Key Issues – Forestry Impacts on Industry Sustainability

3.1 Fragmentation of The Sugar Cane Supply Areas

Attachment 1: "Cane Production Area (CPA) Diverted to MIS Forestry: Babinda to Kurrimine Beach / Silkwood Area" shows all cane growing land (coloured green) in the region from Babinda in the North and Silkwood in the south forming the major portion of the cane supply area for Bundaberg Sugar's Babinda and South Johnstone mills. The map also shows (coloured red) those cane growing areas purchased by MIS forest companies and developed as forestry since the introduction of taxation advantaged MIS arrangements. The Bundaberg Sugar cane railway network which transports cane to Babinda and South Johnstone mills is also shown.

This map dramatically illustrates the following points:

Fragmentation of the cane supply area and erosion of efficient transport logistics. The rapid escalation of tax assisted forest developments has impacted substantially on geographic cane supply density and increased the average tonnes kilometre hauled in transporting contracted cane to mills. Parts of the cane railway system have substantially depleted supply challenging the viability of these sections, and the fragmented manner in which this diversion to forestry has occurred has isolated groups of farms or individual farms into extremities of branch lines where supply has diminished to an extent that makes rail transport options unviable due to the high infrastructure holding and maintenance costs involved for these remnant sections of cane. Road transport alternatives are substantially more expensive and increase road traffic density with heavy vehicle movements, introduce road safety risks and higher maintenance costs for local roads generally not suited for these purposes.

Challenges the viability of the community friendly cane railway system. One of the major components of Bundaberg Sugar's milling operations in the North Queensland region is its cane railway system which has developed from the historical origins of the industry and pioneering of separate infrastructure prior to the availability of suitable public infrastructure in many areas. The cane railway system is unique to the sugar industry in this regard as mills have invested in their own infrastructure and carried the full cost and operating impositions of that infrastructure with substantial benefit to the community over this time.

This infrastructure (at a current installation cost in the order of $300,000 - 350,000 per kilometre) in many cases predated a suitable public transport infrastructure system as is utilised by other industries. Further substantial investment has been made in locomotives and rolling stock.

The cane railway system as currently configured takes approximately 1.7M tonnes of heavy transport off local roads at a considerable cost to the Bundaberg Sugar mills. This has positive benefits to the community through reduction in heavy haulage, lower traffic density and associated effects to roads and other road users. This privately owned system also represents a significant avoided cost to the community for the provision of infrastructure to support an export industry and regional development.

Fragmentation of cane supply areas by replacement of cane farming with forestry has resulted in cost increases or system constraints which jeopardise the viability of the cane railway system. This is particularly relevant as mills have no means of accommodating these additional costs through usage charges to customers, and as mill revenue is totally dependant on export prices for raw sugar. Mills also cannot justify the substantial capital and maintenance cost commitments required for this infrastructure when there is the real possibility that farms serviced by this system may be purchased by MIS forestry companies and the investment subsequently becomes an expensive liability or a large write-off in value.

Inevitably the effect is to remove non-viable rail systems from use, and for this crop transport function to be carried out using road transport. **In many cases the benefit which the community has enjoyed for many years is not realised until it is too late and the rail system is lost forever.**

3.2 Loss of Mill Throughput and Impacts on Commercial Viability

Over 2,200 hectares of valuable agricultural land utilised for commercial sugar cane farming has been lost to MIS forestry in the Innisfail-Babinda area which supplies these two Bundaberg Sugar mills. This represents approximately 145,000 tonnes of cane per annum less throughput to the milling business which has a cost structure dominated by high fixed costs. The reduced ability to recover these costs as a consequence of loss of throughput places severe constraints on the economic viability of milling businesses.

3.3 The CIE Report "Sugar versus forestry in Queensland: regional effects"

Bundaberg Sugar Ltd is a member of the Australian Sugar milling Council (ASMC) which recently commissioned a study undertaken by The Centre for International Economics (CIE) of the effects of MIS forestry on sugar milling, the consequences to local communities which rely on sugar milling and the implications of a shift from cane farming to forestry. It is understood that a copy of this report "*Sugar versus forestry in Queensland: regional effects"* has been provided to the Committee to assist in understanding the dramatic impacts which are consequential to continuing displacement of sugar cane by MIS forestry.

The important conclusions established by this report are summarised below:

- If forestry continued to displace sugarcane land in Queensland, local economic activity (at a mill area level) will decline.
- Economic modelling results indicate local economies centred around a mill area could lose:
  - economic activity of between $32 million and $111 million a year;
  - between 500 and 1000 people, or between 200 and 400 households.
- For small sugar towns, such losses could have significant impacts on schools, infrastructure and small businesses.
- Mills located around the Innisfail, Tully, Ingham. Proserpine and Sarina townships appeared to be most under threat at the time.
- These developments were putting sugar regions and towns under considerable adjustment pressures.

Further analysis by CIE for the purposes of examining some particular applications in the Far North Queensland context for sugar and MIS Forestry has provided the following information confirming that more economic activity is associated with sugar than forestry:

- Sugar production is considerably more input intensive per hectare per year than forestry with over $32,000 per hectare of inputs applied over 18 years compared with $9,000 for red mahogany in net preset value terms
- Less than $6,000 of forestry inputs are sourced locally over 18 years in net present value terms, whereas nearly $19,000 are sourced locally in the case of sugar.
- Total sugar sales revenue is two thirds greater than forestry revenue over 18 years in net present value terms
- Total sugar income spent locally is considerably greater than in the case of forestry because unlike sugar, MIS forestry investors are not local residents.

It should be noted that in this analysis, the values used for forestry returns are based on high productivity estimates rather than some of the examples currently in place in Far North Queensland.

3.4 Community Concerns – A future with MIS Forestry ?

Subsequent to the analysis undertaken by CIE, and from their own observations, regional communities can have no confidence that MIS forestry will provide an effective economic basis for future economic activity, and certainly not to the extent that is provided by the sugar industry.

Performance by some MIS forestry companies sends very strong and alarming signals that these activities are not motivated by deriving profitable use from a high quality agricultural land resource, but by other factors. These are demonstrated by:

Alarming cases of fully mature commercial crops of cane being destroyed only weeks away from the commencement of the cane crushing season so as to expedite tree planting ahead of a taxation year end deadline are clearly visible by all in the local community and have been highlighted in local media. In these cases whole crops of mature cane from complete farms have been destroyed and left to rot in the paddock and tree seedlings quickly planted with minimum ground preparation. Consequences of this seeming disregard for considering profitable use of the land can be observed in all sugar growing areas including Far North Queensland. The effect on regional communities observing this strange, wasteful and unprofitable behaviour and considering their future economic prospects is disconcerting and gives no comfort in MIS forestry providing worthwhile prospects for these communities.

Examples are shown below where sugar cane regrowth along with weeds and grass has out-competed tree plantings with subsequent stunting and high mortality in places. These examples are from the Silkwood area and do not demonstrate profitable use of the land resource, or general good silvicultural practices as may be expected by profit motivated investors.

MIS Teak Forestry in the Silkwood Area - 1

MIS Teak Forestry in the Silkwood Area - 2

MIS Teak Forestry in the Silkwood Area - 3

It is difficult to imagine the benefit which can be identified and can justify the unique taxation advantages which these activities are able to access to the eventual detriment of regional businesses and communities.

4 The Case for Greenhouse Gas Abatement and Sustainability

Sugar cane is the most efficient and productive biomass producer of any crop, with annual biomass production from current varieties bred for optimum sucrose accumulation often achieving well over 100 tonnes (total biomass) per hectare per year under conventional commercial cropping systems. Research into varieties which optimise biomass accumulation rather than sucrose accumulation (so called "energy canes") are capable of double this rate of biomass accumulation and offer great potential for renewable energy and other products derived from cane fibre or sugar constituents into renewable electricity, biofuels or bioplastics which would otherwise be derived from fossil fuels escalating greenhouse gas accumulation in the atmosphere. While some of this potential is achievable through conventional cogeneration and fermentation technologies, second generation technologies concentrating on lingocellulosic conversion into biofuels and bioplastics offer huge benefits in sustainable, renewable products at a scale of magnitude beyond that which is currently available.

A report (www.rirdc.gov.au/reports) recently issued by the Rural Industries Research and Development Corporation (RIRDC) entitled "Future Biofuels for Australia: Issues and opportunities for conversion of second generation lignocellulosics" highlights the critical

importance of bagasse derived from sugar cane as a renewable resource to adapt to these technologies. An objective of the report is to stimulate policy makers and industry to examine more closely the opportunities in second generation biofuels that are unique to Australia. It is also an objective of the report to give prominence to second generation biofuels for Australians. The report is intended to inform government policy makers, rural industries, local, state and federal governments, research funding bodies and researchers, first generation biofuels producers, transport fuel experts, investment bodies, communities and the general public.

These opportunities are additional to the already established renewable energy and ethanol fuel production derived from sugar cane production. Bundaberg Sugar's mills in Far North Queensland generate renewable steam and electricity energy for processing cane into sugar, and also for supply of electricity into the national grid. This renewable energy and electricity displaces equivalent amounts of energy which would otherwise be generated by using fossil fuels (principally coal) with subsequent increase in greenhouse gas accumulation in the atmosphere. Renewable electricity exported to the grid by Bundaberg Sugar mills in Far North Queensland is in the order of 40,000 MWhrs per year with this principally being delivered from two of its mills. This is equivalent to 1.7MWhrs per year per hectare of cane processed at these mills.

While this may be seen as a moderate amount of renewable energy, it is a genuine abatement and is verifiable against metered output. In this regard any qualifying component under the National Renewable Energy Target incentives (Renewable Energy Credits – REC's) must satisfy these qualifying conditions and be in addition to a 1997 year baseline value where electricity exports may have been already occurring. This baseline value is deducted before establishing an amount of qualifying REC's for the electricity exported. It would seem that the comparison against proposed taxation and carbon sink benefits proposed by MIS forestry is in need of justification against actually achieved abatement performance from other sources such as sugar cane production and processing

It would also seem to be a failure in policy if the demonstrated capability for greenhouse gas abatement delivered by the sugar industry is sacrificed by a taxation assisted MIS forestry strategy which will not deliver abatement benefits to the same degree as are available either now or in the future from sugar cane production. A recently completed Australian bioenergy roadmap outlines a potential for up to 4,000 GWh of greenhouse friendly electricity to be exported from Australian sugar mills from currently available crops and generating technologies. The recently announced extension to the renewable energy target and the policy settings contained within the scheme moves mills closer to realising this potential.

Bundaberg Sugar also endorses the recommendation raised by the Australian Sugar Milling Council:

"One option that the Committee could consider for recommendation to the Government would be to more closely define the eligibility criteria for MIS Forestry taxation arrangements in a way which ensured there is a valid national and regional benefit from such activities that justifies the diversion of taxation revenues supporting them. An example may be where this activity is seen as remedial to land not suitable for commercial farming operations. Such an activity would require pre-approval validation and post establishment auditing for ensuring the integrity of a system which can otherwise not be justified. Similar strict arrangements for the creation of economic benefits (Tradable Renewable Energy Certificates) only on the basis of results actually measured governs the ability of sugar mills to access incentives available under the MRET scheme, and could be adopted as a case example for such an activity. It should be noted that while there is an opportunity for sugar mills to make investments to access REC's (under strictly managed arrangements), there is no ability to access diverted taxation concessions to these projects in the same way as MIS forestry projects can."

5 Summary

The basis of the unique incentives available to MIS forestry can be argued do not deliver the intended outcomes of governments or as are commonly promoted by forestry interests masquerading as environmental white knights undertaking some form of beneficial agriculture. Neither can be further from the truth when examining the manner in which forestry interests have proceeded to expedite their investment projects within the sugar cane regions of Far North Queensland. In addition to this absence of justification for achieving commercial or environmental benefits the established industries and communities of these regions are at serious risk of permanent damage and lost opportunity arising from displacement of commercial farming operations and secondary processing such as sugar milling embedded in these regions and communities.

Bundaberg Sugar Ltd

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Attachment 1: Cane Production Area (CPA) Diverted to MIS Forestry – Babinda to Kurrimine Beach / Silkwood Area