

8 August 2014

Northern Australia Taskforce  
Department of the Prime Minister and Cabinet  
PO Box 6500  
CANBERRA ACT 2600

Dear Sir/Madam

**Green Paper on Developing Northern Australia**

The Australian Sugar Milling Council (ASMC) is the peak industry organisation for raw sugar milling in Australia. The ASMC represents some 95 per cent of Australian raw sugar production.

The ASMC considers the sugar industry to have great potential for contributing to the development of northern Australia. The industry has a long history of production in rural areas of Australia, and contributes to the social and economic wealth of many regional centres in Queensland and northern New South Wales. There is also significant potential for expansion of existing technologies, such as electricity and ethanol, and for a range of other biofuels and bioproducts derived from sugarcane.

Please find attached the ASMC submission to the Green Paper on Developing Northern Australia. We look forward to working with you in future.

Yours sincerely



Dominic V Nolan  
Chief Executive Officer

## Green Paper on Developing Northern Australia

### Australian Sugar Milling Council submission, 8 August 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.

The following submission relates to the sugar industry and its opportunities and role in developing northern Australia. As such it addresses the Green Paper questions of most relevance to the industry.

#### Section A: Profile of Northern Australia

*Q5 Prospects and major risks for the northern Australian economy and sections of the economy government should focus on.*

The sugar industry is optimistic about the future and looking to expansion for the first time in decades. Underpinning this optimism is growing global demand for food, including sugar, and diversification opportunities, which help the industry to manage global sugar price fluctuations. 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. 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. As outlined on P25 of the Green Paper, no particular sector should be the focus for government, as a diverse economy is more stable, flexible and able to respond to emerging opportunities.

## Section B: Opportunities for northern Australia

Proximity to Asia is cited in the Green Paper as providing a strategic advantage for Australia for trade (P18). However, the sugar industry experience is that advantages of proximity can be offset by trade barriers, or diminished by low shipping costs. 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.

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, growth dependant on just crystal sugar will be more limited than the possibilities offered through diversification, particularly from co-generation of electricity in the near future.

The sugar industry has the capacity to provide steam, cost-effective electricity and biofuel for other industries, particularly in a greenfield development. The generation of steam by sugar mills provides opportunities for co-location of other industries that require steam. 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 base-load generators in terms of reliability. In 2013 Sugar mills in eastern Australia produced over 1,000 GWh of electricity, the equivalent of powering 173,000 homes. This expanded cogeneration capacity increases regional energy security and reduces government cost of Community Service Obligations.

While fossil fuel based electricity generation costs will increase into the future, the cost of providing renewable energy (such as cogeneration from bagasse) continues to fall and within the next decade will put downward pressure on retail electricity costs (RET modelling draft report). Renewable energy generators that are 'must run' generators (including sugar mills during the crushing season) already dampen wholesale electricity prices, because they effectively bid into the market at zero cost, and accept the wholesale market price.<sup>1</sup>

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. 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

---

<sup>1</sup> Roam Consulting. 2014. Roam Consulting Report to the Clean Energy Council: RET Policy Analysis. 29 April 2014 at [www.cleanenergycouncil.org.au/policy-advocacy/renewable-energy-target/ret-policy-analysis.html](http://www.cleanenergycouncil.org.au/policy-advocacy/renewable-energy-target/ret-policy-analysis.html)

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.

### Section C Barriers to Development

Opportunities for growth in the sugar industry 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.

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. Since the separation of LRET and SRES in 2010, \$300 million has been invested. A further \$1 billion potential investment in existing sugar mills has been identified, but is at risk if the RET is weakened or removed. These are missed opportunities for regional areas of northern Australia and will limit potential greenfield developments.

Ethanol is currently produced from molasses at Sarina. Further development has been limited by lack of 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.

The rising costs of both irrigation water and the electricity required to pump and apply it to sugarcane crops is an emerging threat to sugar industry profitability. Irrigation in the sugar industry is one of the first inputs sacrificed by farmers facing financial pressure. The cost of electricity also affects sugar mills directly, being a seasonal importer and exporter of electricity. Price increases of over 100 per cent for electricity over the last 5 years have had a significant impact on income for sugar mills and sugarcane growers, already operating at narrow margins. These increases are threatening the productivity and competitiveness of the sugar industry and are likely to constrain further investment in major projects.

Population growth around sugar mills has led to a range of supply chain issues, including loss of productive land, declining access to transport corridors and increasingly prescriptive legislation affecting their license to operate in a more densely populated region. The sugar industry's efficient transport and logistics systems help it to remain globally competitive. Scale is important, and loss or fragmentation of production area is a risk to the effectiveness of those systems. For example, the responsibility for, and cost of, transport of the sugarcane crop to mills for processing lies with the mill owner. Fragmentation of production area threatens throughput and means that sugar mills need to source sugarcane from further afield which increases the cost of transport of cane to the mill. Long pay back periods of transport and storage systems means that effective land planning and policy certainty are required to invest with certainty.

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.

### Section D Policy directions

Policy certainty and longevity is important for investment in growth. 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 and long-term protection of cropping land from mining, urban or industrial development.

Securing a trading environment in which sugar flows freely is critical to the future of Australia's sugar exports, as discussed in section B. The industry welcomed the finalisation of the free trade agreement between Australia and Korea and strongly supports the government's negotiations in pursuing an outcome that will establish rules enabling sugar to move freely between Trans Pacific Partnership member countries, and the reduction or elimination of tariffs and trade barriers. There are a range of other trade agreements, in addition to the multi-lateral efforts through the World Trade Organisation process, strongly supported by the Australian sugar industry, including the China Free Trade Agreement (FTA). Commercially relevant outcomes for sugar are essential in every trade agreement, as evidenced with the ongoing challenges from the USA-Australia FTA, the only trade agreement either country has ever signed that excludes sugar.

Policies across government portfolios need to support a 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. All of our international competitors are pursuing diversification opportunities with the support of favourable policies by their governments. Competitors in Brazil or Thailand have as much as 20 or 30 per cent of their income from diversified products, primarily renewable energy. The Australian sugar industry must also have access to these opportunities to remain internationally competitive. A supportive government and policy framework is essential to achieve this.

Further development of ethanol requires policy support and certainty and equitable market access, as discussed in Section C. 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.

Policy considerations and investment in infrastructure (including the approach to private and public investment in infrastructure) needs to consider the immediate and long term benefits for both the industry and the community (the level of public good) derived from

the infrastructure. The sugar industry has invested in infrastructure including processing, storage and transport over a long period of time to build an efficient and cost effective system that enables the industry to remain competitive in the global sugar market. The sugar industry understands the long pay back periods associated with such investments. For example, most Queensland sugar mills own and maintain a dedicated cane railway network to bring freshly cut cane to the mills for processing. These privately-owned railways transport up to 30 million tonnes of cane during the crushing season (June to December), keeping the equivalent of 18 -25 thousand heavy truck movements per day off coastal roads. In 2013, 87 per cent of sugarcane was transported to mills by cane railway and a further 5 per cent was transported by a combination of road and cane railway. The cane railways are considered the most efficient method for moving sugarcane to mills, but it would be cost-prohibitive for the sugar industry to build them now.

Despite the recent push for private investment in infrastructure, governments should consider strategic investment where it benefits the broader community, where it can increase the flexibility for using the infrastructure, or where it enables further private investment in infrastructure. For example railways are cost prohibitive for the vast majority of private investors, but offer significant community benefits including public safety, less road congestion and less road maintenance. The Queensland Parliamentary Inquiry into the rail freight use by agriculture has recommended government investigate a range of options including investment in infrastructure, to facilitate above rail companies to offer services to agriculture, generating competition and improving price effectiveness and flexibility<sup>2</sup>. In the sugar industry, the use of public rail to transport raw sugar to bulk terminals for export has steadily declined over recent decades due to the rising cost of rail freight, associated with the campaign nature of the freight and there being only one provider.

More water storage through new or expanded dams would be supported by the sugar industry. There is a history of industry investment contribution being made to enable dam projects to proceed and in some instances this could be an avenue of opportunity for Governments in the future. However, the cost of building dams and irrigation infrastructure could not be borne by industry alone because the cost of irrigation including infrastructure establishment costs is prohibitive. 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.

Government investment in research and programs to improve water use efficiency in agricultural industries needs to continue, and water (and energy) efficient technologies encouraged / implemented in greenfield developments. 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.

Declining government support for agricultural research, development and extension will limit options for development of northern Australia. The Australian Government matching

---

<sup>2</sup> Queensland Parliamentary Inquiry into rail freight use by the agriculture and livestock industries, Report no. 45 Transport, Housing and Local Government Committee, June 2014, [www.parliament.qld.gov.au/thlgc](http://www.parliament.qld.gov.au/thlgc)

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.

ASMC supports policies to protect agricultural land from long term alienation to other uses. When considering protection of good quality agricultural land, the existence of physical infrastructure (such as for irrigation, processing and transport) and social infrastructure (communities, skills and supporting services), must also be taken account of, along with the biophysical potential of the land. Including infrastructure in these considerations protects the existing investment by industry and communities, and provides security for industry considering further investments with long pay back periods.

Policy considerations around social infrastructure may require innovation and flexibility into the future. Options to entice young workers or apprentices to the mills and into farming may require changes to how these roles are perceived by younger generations. Newcomers may be attracted to agriculture if it is perceived as a career, not just a lifestyle. An engagement strategy may be a useful and timely consideration.

Future skills and training will most likely need to be different to what is offered today due to a range of factors including changing technology and the social and learning expectations of the current and future generations. In terms of growing sugarcane, advances in crop development, technology and community expectation in relation to minimising impacts on the environment mean that growing sugarcane is becoming more technical; reliance on hands-on experience might no longer be adequate for long term business viability.

Policy development needs to look for the options that offer the greatest net benefit in the long term for industry, the broader community and environment. There needs to be widespread and genuine consultation in the development of policies and regulation to ensure the desired outcomes are realised and to avoid unforeseen perverse outcomes.

There also needs to be coordination across government departments and between jurisdictions to ensure policies are consistent. For example, the current review of the RET needs to recognise the multiple opportunities offered by renewable energy in the development of northern Australia.

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.