

## INTERPRETING THE LAWRENCE CONSULTING REPORT 2018

### Introduction

For this study, which is the first of its type commissioned by the Australian Sugar Milling Council, independent economic analysts Lawrence Consulting were granted exclusive access to financial data supplied by Queensland's leading raw sugar mills and the sugar refinery in Mackay.

Over one financial year (2017-18), the study aggregates the direct and indirect socio-economic contributions to Queensland, Brisbane and host communities of the 20 participating sugar mills comprising (from north to south):

Mossman Central			
Tableland (Mareeba)	Mulgrave Central (Gordonvale)		
Tully	South Johnstone		
Macknade (Herbert)	Victoria (Herbert)		
Invicta (Burdekin)	Kalamia (Burdekin)	Pioneer (Burdekin)	Inkerman (Burdekin)
Proserpine			
Farleigh (Mackay)	Marian (Mackay)	Racecourse (Mackay)	Plane Creek (Sarina)
Bingera (Bundaberg)	Millaquin (Bundaberg)	Isis Central (Childers)	Maryborough

The results reveal a significant and unique contribution to Queensland's regional prosperity. Given mounting pressures, maintaining and increasing this prosperity will however require concerted operating and policy reform agendas which are also outlined in this overview.

### The significant economic benefits of sugar manufacturing

Modelling of the flow-on effects of the **\$2.24 billion** in direct expenditure by Queensland sugar millers allowed their indirect and total (combined) economic impact to be estimated. The total statewide economic impact of the sector in FY 2018 (based on Type II multipliers including both indirect industry and consumption-induced effects) was an estimated:

- **\$4.05 billion** in direct and indirect value add (aka contribution to Gross State Product [GSP]); and

This represents 1.2% of Queensland's GSP (based on an estimated \$327.0 billion in FY 2017).

- **22,657** direct and indirect full time equivalent (FTE) jobs were supported.

This equals 0.9% of total Queensland employment in the FY 2018 based on the reporting of 2.4 million workers in Queensland.



## High and diversified spend in host communities

Consisting of goods and services purchases including cane (aka ‘business spend’) and mill (and refinery) worker wages, the sugar manufacturing industry injected almost all of its direct **\$2.24 billion** spend into regional host communities. This is also a diversified spend, not only in terms of where it occurs but also the range of goods and services procured - all of which helps to strengthen the Queensland economy. Looking specifically at the business spend of **\$1.89 billion** (excluding mill worker wages) - 90% or \$1.7 billion was injected along coastal and regional Queensland in the Local Government Areas (LGAs) of (Table 1):

**Table 1: Sugar manufacturing business spend in coastal and regional Queensland**

Mackay (\$535m)	Cairns (\$87m)	Isaac (\$39m)
Burdekin (Ayr) (\$290m)	Fraser Coast (Maryborough) (\$68m)	Douglas (\$21m)
Hinchinbrook (Ingham/Lucinda) (\$170m)	Whitsunday (Proserpine) (\$58m)	Other regional (\$56m)
Cassowary Coast (Tully) (\$156m)	Townsville (\$53m)	
Bundaberg (\$129m)	Mareeba (\$45m)	

The 10% balance (\$184m) of the business spend was in Brisbane (\$161m) and in Logan (\$23m).

More than one third of this direct business spend (36% or \$686 million) was on a diverse array of non-cane goods and services as seen in Table 2. Of note is that in FY 2018 the vast majority of this non-cane business spend was ‘stay in business’ capital expenditure, with very little expansion capital expenditures recorded. This reflects a number of factors including depressed sugar prices and a difficult policy and regulatory environment (more below).

**Table 2: Main non-cane goods and services purchases by mills by sector**

Metal product manufacturing	Building installation services
Railway rolling stock, manufacturing and repair	Rail and water transport
Pump, compressor, heating and ventilation equipment manufacturing	Manufacturing consumables
Specialised machinery and equipment manufacturing	Professional, scientific and technical services
Electricity and water supply	Building cleaning, pest control, support services
Professional advisory services	Training and education
Heavy and civil engineering construction	Machinery and equipment repair and maintenance

Source: ASMC members

## High regional dependencies on a strong manufacturing sector

Four Queensland regions were identified in the report as being highly dependent economically and socially on a prosperous sugar manufacturing industry, which is calculated to have made significant



contributions in FY2018 (Table 3). Chart 1 outlines the contribution of sugar manufacturing to the top 15 LGAs.

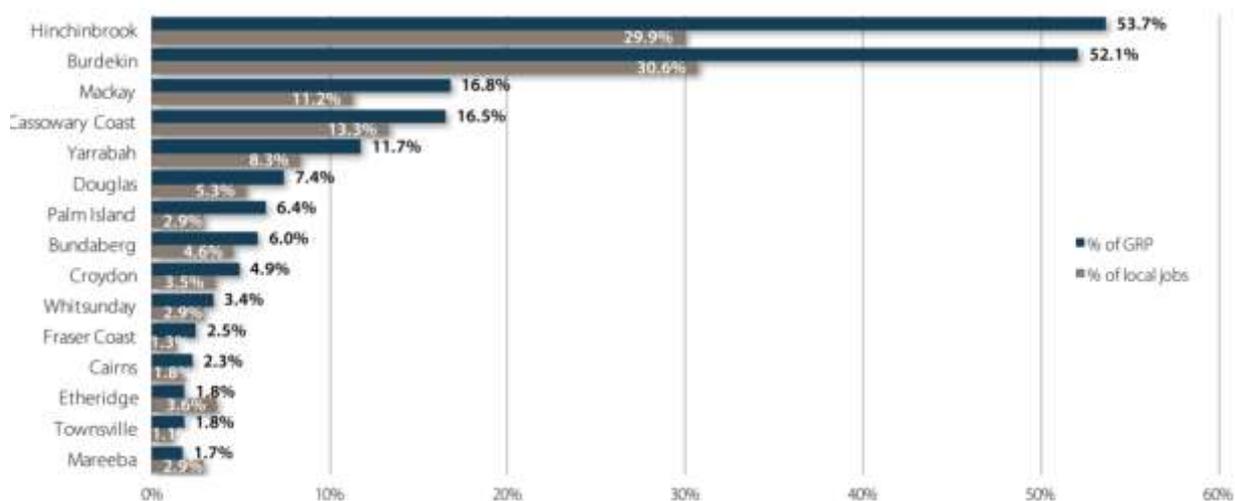
**Table 3: Largest contribution to local economy and employment**

Local Government Area	% of GRP*	% of employment
Hinchinbrook (Ingham/Lucinda)	54%	30%
Burdekin (Ayr/Home Hill)	52%	31%
Mackay (inc. Sarina)	17%	11%
Cassowary Coast (Tully/Innisfail)	17%	13%

\*Gross Regional Product

Source: Lawrence Consulting report, Economic Impact of the Queensland Sugar Manufacturing Industry, 2017/18

**Chart 1: Largest contribution to local economy and employment**



Source: Lawrence Consulting report, Economic Impact of the Queensland Sugar Manufacturing Industry, 2017/18

### Sugar manufacturing makes a consistent economic contribution

Despite weather and price variables, Australian raw sugar production has remained relatively stable since 1991. As mill spending is closely linked to production levels, it can be assumed that the economic benefits calculated in FY 2018 have been relatively consistent since at least 1991. The Australian sugar manufacturing sector produced 4,348,000 tonnes of raw sugar in FY 2018. This compares with an annual average 4,722,000 tonnes since 1992 and an average 3,174,000 tonnes from 1973-1991 (Chart 2).

The achievement of higher and consistent raw sugar production and economic contribution levels since 1991 highlights the influence of progressive deregulation in the industry that began in the late 1980s and the requirement of the mills to invest steadily more each year in 'stay in business' capital expenditures.



Chart 2: Australian raw sugar production (kt), 1973-2017



Source: Australian Bureau of Agricultural and Resource Economics, Agricultural commodity statistics series

### Sugar manufacturing wages are high in comparison

The data shows that wages levels in the Australian sugar manufacturing industry are higher than the average weekly earnings in Australian manufacturing and the Australian all industry average.

From data collected directly from mill and refinery companies, in 2017/18, the Australian sugar manufacturing industry paid \$352.7 million in pre-tax wages to 4,591 resident employees with an average wage across the industry of approximately \$76,814. This compares to data provided by the Australian Bureau of Statistics of average weekly earnings in Australian manufacturing of \$67,834 and an all Australian industries average of \$62,785.

Table 4 demonstrates sugar manufacturing earnings relative to all other Australian industries.



Table 4: Average weekly earnings by Australian industry, May 2018

Mining	\$	135,782
Electricity, Gas, Water and Waste Services	\$	96,283
Information Media and Telecommunications	\$	84,911
Financial and Insurance Services	\$	83,429
Professional, Scientific and Technical Services	\$	82,462
Transport, Postal and Warehousing	\$	79,326
Construction	\$	78,146
Public Administration and Safety	\$	77,314
<b>Sugar manufacturing</b>	<b>\$</b>	<b>76,814</b>
Wholesale trade	\$	71,568
Manufacturing	\$	67,834
All Industries	\$	62,785
Rental, Hiring and Real Estate Services	\$	62,754
Education and Training	\$	61,890
Administrative and Support Services	\$	55,229
Trade	\$	38,532
Accommodation and Food Services	\$	27,768

Source: ABS catalogue no. 6302, Average Weekly Earnings, Table 10I

### More supportive government policies are needed to sustain and grow sugar manufacturing

Whilst the industry's activities lead to significant benefits to Australian communities, the contribution cannot be taken for granted. There are a number of significant threats to the ongoing viability of the sugar manufacturing industry and barriers to continued investment - be that to maintain existing operations which are currently under threat or to expand and diversify operations to offset sugar price downturns, generate additional revenues and capitalise on increasing global demand for sugar.

The Australian sugar manufacturing industry is seeking improved policies that:

- promote business operational and investment certainty
- foster improved relations with sugarcane growers
- incentivise innovation and productivity

Areas of policy focus must include a renewed commitment to:

- enhancing trade policy & market access outcomes for the sugar industry
- support industry-led efforts to strengthen its social licence
- de-regulation of the mill and grower operating environment to foster innovation and investment
- research that underpins improvements in sugarcane and sugar milling productivity
- market incentives and policy stability to support diversification - including cogeneration and biofuels

The ASMC will provide more detailed policy proposals in 2019.