Photo credit: MSF Sugar – Tableland Mill

DEC 2019

SUGAR POLICY INSIGHTS

INSIDE

Australian Sugar Milling Council

OUR OVERLOOKED ENERGY POTENTIAL

Australia's electricity market problems have been well documented. For example, the ACCC in their June 2018 report '*Restoring electricity affordability and Australia's competitive advantage*' discussed the dual concerns of rapid growth in renewables and affordability, saying:

'Australia is facing its most challenging time in electricity markets. High prices and bills have placed enormous strain on household budgets and business viability. The current situation is unacceptable and unsustainable.'

Further, the Hon. Angus Taylor MP, Federal Minister for Energy and Emissions Reductions, and Ms Kerry Schott, chair of the Energy Security Board have lamented the lack of new on-demand, dispatchable supply to promote grid security and reliability concerns stating:

'First, retaining and attracting on-demand dispatchable capacity is absolutely crucial' (Taylor, 2019).

'But the big question is how to get firm and flexible dispatchable power. And how best to design to get it' (Schott, 2019).

Under the right policy and commercial settings, electricity generated from cane biomass can address the dual concerns of affordability and reliability, but it will require detailed investigations and a commitment to reform (Discussed on page 2).

A YEAR TO FORGET AND RESET

David Pietsch, CEO

When Queen Elizabeth II revived the phrase "Annus horribilis" she clearly did not have the Queensland sugar industry's 2019 year in mind, but an apt description it most certainly is.

However, another Latin phrase "de minimis" has been most relevant to our fortunes this year. It describes the level of subsidies the Indian Government must not exceed as part of its entitlements under WTO rules, but which it's exceeded in breathtaking fashion. As a result, global sugar prices are well below the cost of production for even the most efficient producers such as Australia.

After ASMC first raised the alarm in 2018, and following 20 months of analysis, consultation and process, the recently commenced WTO dispute will be the 'main event' to watch in 2020 (see page 4). For the global sugar community, "winning isn't everything, it's the only thing!"

On top of the price malaise, Australian sugar production has fallen by around 13% off the back of a large drop in the sugarcane crop due to poor 2019 growing conditions.

Despite these challenging times however, there is considerable room for optimism.

Our industry is a success story for two-way trade and investment. We earn $1.5 billion per year in export income, and have attracted more than $2 billion in much needed foreign investment in our milling companies over the past decade.

Given our reliance on exports, market access is essential to enhance our sector's future prospects. Sugar missed out on the benefits obtained for other commodities in recent trade agreements, particularly with the US and China. To secure the sugar sector's future viability we have high expectations for trade deals with the UK and EU.

Domestically, much of the miller and grower leadership accepts the need for heavy lifting, commercially and structurally, for the industry to continue to be a mainstay of the economy.

We hope governments will also recognise the increased burdens they have placed on the industry and will seek to provide greater relief and support. Regulations and/or charges in marketing, electricity, water, port access etc. make it more difficult and costly for us to operate.

One hopes we'll look back to see 2019 as a modern-day nadir, and that 2020 signalled the commencement of relief from regulatory burden, global overproduction, and a return to profitability for Australia's sugar producers.

OUR ENERGY CHALLENGE

David Rynne, Director, Economics, Policy and Trade

The Australian sugar industry's potential and its contribution to the current affordability and reliability concerns are being overlooked in the current debate on electricity markets. In brief:

1. As a large consumer of electricity, the price increases are threatening industry viability, especially for growers who irrigate.
2. Sugar mills' potential to increase supply of on-demand, dispatchable, green energy is on hold due to ongoing policy uncertainty and regulatory barriers.

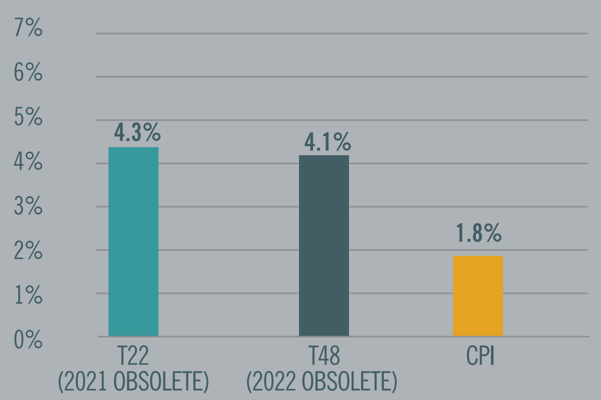
INCREASING ENERGY COSTS AND THEIR IMPACTS

When co-generated supply is not available, sugar mills purchase additional power from Ergon under Queensland Competition Authority (QCA) regulated tariff rates T22 and T48.

Irrigated cane farms purchase electricity under a variety of regulated tariff rates e.g. T20 and T62. Power charges can represent between 5-25% of total farm operating costs depending on a range of factors.

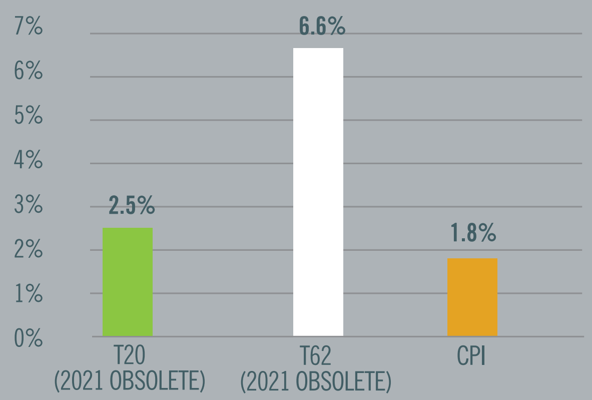
For example, higher power bills lead to cash–flow concerns and a reticence to consume electricity to pump irrigation water.

CHART 1: COMPOUND AVERAGE GROWTH RATE INCREASES IN MILLER TARIFFS (2013/14–2019/20)



SOURCE: ASMC CALCULATIONS BASED ON QCA TARIFF DATA

CHART 2: COMPOUND AVERAGE GROWTH RATE INCREASES IN GROWER TARIFFS (2009/10–2019/20)



SOURCE: ASMC CALCULATIONS BASED ON QCA TARIFF DATA
BASED ON AN ESTIMATED 220,000,000 KWH CONSUMPTION PA ACROSS 4,550 GROWERS

Such decisions can result in lower crop yields and the flow-on is reduced cane throughput at the mill.

Charts 1 and 2 highlight the average regulatory increases in mill and grower tariff costs over the periods indicated. The increases are well above the Consumer Price Index (CPI).

As these tariffs are due to become obsolete, an opportunity exists to transition to rates that are affordable and more effective in encouraging off-peak consumption.

Another option would be to allow innovative, behind-the-meter options whereby electricity from a sugar mill could be supplied to local communities, including cane growers, either physically or virtually on a more affordable basis.

To assess the opportunities and barriers to behind-the-meter solutions, the industry has applied for funding from the Federal Regional and Remote Communities Reliability Fund Microgrids Program.

INCREASING CO-GENERATION SUPPLY

Feedback from ASMC members indicates potential to increase co-generation supply from the current 1.1 million MW/hrs to 3.3 million MW/hrs per annum, of which 2.5 million MW/hrs could be available to sell to the grid (estimated as enough to power 543,500 dwellings).

An increase in co-generation would require:

- Additional bagasse becoming available through provision of additional storage facilities as well as mill ‘steam on cane’ process changes.
- Policy stability to incentivise the considerable investment in generation asset replacement and new capacity builds.
- An upgrade to network interconnections in proximity to sugar mills.
- Per AEMO classifications, bagasse co-generation remaining a non-market, non-scheduled form of generation.
- Protection of cane land on strategic cropping land (SCL).

The Planning and Environment Court recently authorised a renewable energy use to compete with traditional farming uses (i.e. on SCL) in particular circumstances.

Furthermore, recent planning decisions approving the development of solar installations on good quality agricultural land are being viewed as the ‘thin edge of the wedge.’

While planning decisions should be based on the prevailing circumstances, the alienation of good quality agricultural land will have adverse economic impacts for both growers and millers.

ASMC is monitoring the situation closely, as there may be a need to advocate for changes to the Planning Act.

The potential to increase co-generation of electricity and to diversify other revenue streams are a key pillar of the industry’s ongoing *Revitalisation Agenda*.

WTO & India in Focus

Members of the World Trade Organisation (WTO) agree to abide by a set of trade rules. If a member country believes the rules are being violated, the WTO's multilateral dispute settlement system ensures action is not taken unilaterally.

The Australian Government and sugar industry, working together with counterparts in Brazil and Guatemala, have built a case against India based on the level of sugar subsidises being provided by the Indian government relative to their entitlements as a signatory of the WTO.

Formal WTO consultations to discuss domestic support measures and export subsidies provided to Indian sugarcane growers and sugar producers began early in 2019.

In July, due to the absence of progress, the Australian Government requested an escalation to the next stage of the dispute settlement process – establishment of a three person panel to review and make a ruling on the case (Diagram 1: *WTO Panel Process*).

India at a glance

- One of the largest sugar producers and consumers.
- Federal Government sets the fair and remunerative cane price (FRP) that sugar mills pay for all the sugarcane grown.
- FRP rates incentivise growers to plant cane because prices are:
  - 60% higher than competing crops such as legumes or wheat
  - Independent of fluctuations in global prices for raw sugar.
- Some state governments set a State Advised Price (SAP) for cane that is often higher than the FRP.
- Export subsidies are used in high production years as Indian exports cannot compete at world prices.

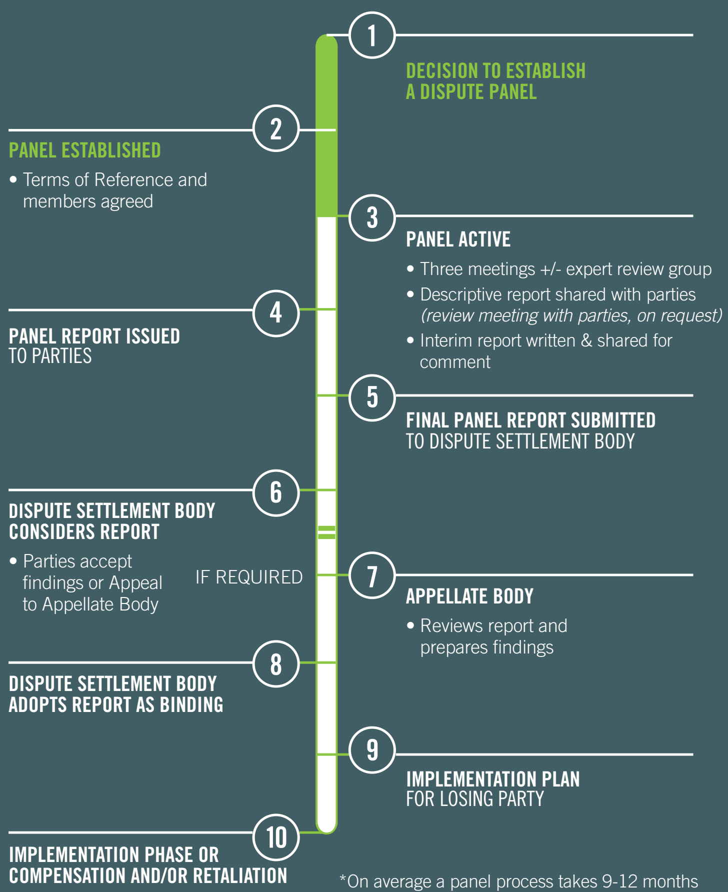
Indian Support Subsidies

Indian governments provide **domestic support** to cane and sugar producers through price measures considered to be in excess of their 10% *de minimis* WTO entitlement.

Export subsidies for sugar are also inconsistent with India's obligations under Article 3 of the *Agreement on Subsidies and Countervailing Measures*.

DIAGRAM 1: WTO PANEL PROCESS

INDIA – MEASURES CONCERNING SUGAR AND SUGARCANE, GOVERNMENT COMPLAINANTS: **DS580 AUSTRALIA**, DS579 BRAZIL AND DS581 GUATEMALA



*On average a panel process takes 9-12 months

AUSTRALIAN Sugar Milling COUNCIL

GPO Box 945
BRISBANE QLD 4001

Phone +61 7 3231 5000

Subscribe at asmc.com.au
@sugarcouncil

About ASMC

The Australian Sugar Milling Council represents Australia's raw sugar manufacturers and exporters.

Our members manufacture 90% and collectively export over 50% of Australia's raw sugar.

Our aim is to be a leading voice for change to create opportunities for a more profitable and sustainable Australian sugar industry.

KEY FOCUS AREAS

Trade policy | Social licence | Advocacy | Revitalisation | Research strategy