



Australian Sugar Milling Council (ASMC) submission in response to the *Modernising the Research and Development Corporation system* discussion paper

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## Introduction

The Australian Sugar Milling Council (ASMC) is the peak body for raw sugar manufacturers in Australia.

We represent five sugar manufacturing companies which collectively produce 90 percent of Australia's raw sugar at their 17 sugar mills in Queensland. Our members also market more than 50% of Australia's raw sugar production.

An independent analysis commissioned by ASMC earlier this year identified that the total contribution to the economy from the raw sugar manufacturing sector was in excess of \$4 billion in 2017/18, underpinning more than 22,600 jobs.

ASMC is also a founding member with CANEGROWERS of the Australian Sugar Industry Alliance (ASA) which brings together representatives across the raw sugar value chain to provide a whole-of-industry perspective on matters of common interest, including sugar industry research and development.

Australia's raw sugar industry is currently under considerable pressure due to poor global sugar prices - largely as a result of subsidised production in other sugar-producing nations - a domestic regulatory burden that is unsustainable, and low productivity growth.

However the industry remains resilient and ambitious, and to fulfil its potential needs vision, collective planning and focus.

High quality, investor-driven research, development and adoption is pivotal to drive industry improvement through increased productivity, process innovation, and commercialisation of new products and revenue streams.

## Recommendations

The Australian Sugar Milling Council (ASMC) makes six recommendations to retain the benefits of the current RDC model, and to make improvements to the delivery of sugar industry research and development.

**Recommendation 1:** That the foundation of the model should remain, including current matching government dollar investment according to 0.5% of industry GVP, and that Sugar Research Australia (SRA) continue to operate as a single, commodity-specific Industry Owned Corporation.

**Recommendation 2:** That ASMC be granted the status of prescribed body - or an equivalent mechanism established - for the purposes of formally endorsing SRA's strategic and operating plans, and key performance indicators, to ensure they meet the needs of sugar milling sector and that SRA is accountable for delivery against them.

**Recommendation 3:** That greater flexibility in the investment of levy funds on industry priorities (particularly between R&D and non-R&D industry programs) be provided to SRA.

This recommendation recognises that collectively sugar industry levy payers currently contribute funds well beyond that which can be matched by the Australian Government for R&D purposes, and should therefore have greater flexibility and agility to invest in critical industry programs that assist the industry's development but may not meet the traditional definition of R&D.

**Recommendation 4:** To allow an agreed portion of an individual milling company's contributed funds to be preserved and directed by them to specific, well-defined R&D-eligible projects delivered in partnership with SRA. Projects would need to meet agreed criteria, be eligible to receive matching government funds, and contribute broader benefit to the sugar industry.

**Recommendation 5:** That as part of its 2020 performance review, the SRA Board commission an external review to determine whether its unique 'purchaser/provider' internal model continues to best serve the raw sugar industry, or whether changes need to be made to ensure greater agility, accountability and effective delivery of the benefits from research investments.

**Recommendation 6:** That the nature and levels of cross-RDC collaboration be left to individual RDCs to determine, so that levies can be maximised for the benefit of industry and the community.

## The Australian raw sugar industry

Australia is one of the lowest cost manufacturers and exporters of raw sugar globally.

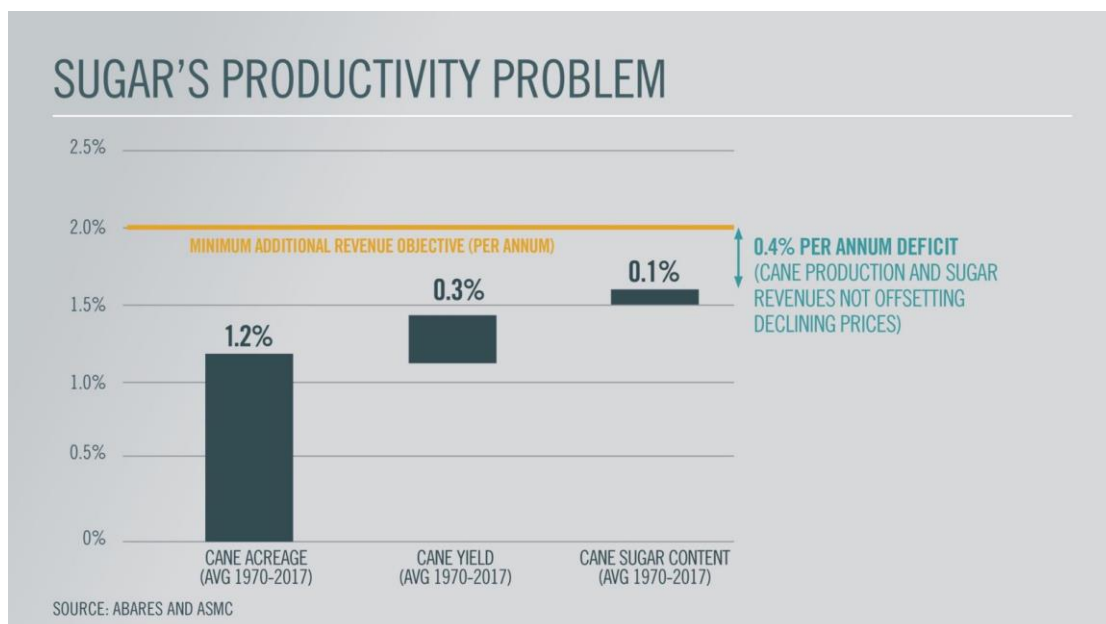
Our strengths include:

- Full exposure to intense global competition that has spurred innovation and efficiencies in all aspects of our farming and milling practices.
- Access to six storage terminals with 2.5 million tonnes of bulk storage capacity at ports strategically located along the Queensland coast. This provides the ability to export during favourable market conditions, and enables supply year round to our refinery customers.
- Through the co-generation of renewable energy from sugarcane biomass, most raw sugar mills are net exporters of renewable energy - producing enough to power 135,000 households.
- Through industry levies and contributions from governments, we collectively invest almost \$40 million per annum into research and development through the industry-owned company, Sugar Research Australia.

The industry faces considerable challenges:

- Global raw sugar prices have fallen in real dollar terms on average two percent per annum since the 1970s. Conversely the industry has not kept pace through improved productivity, growing on average only 0.3% over the past 30 years.

Chart 1: Sugar's productivity problem



- In more recent times the growing regulatory burden and increased costs, together with depressed global price situation has seen confidence and productivity stall.

- Our biggest competitors - Brazil and Thailand - are pursuing multiple strategies to reduce dependency on volatile raw sugar markets whereas Australia has no such plan, no supporting policy framework, and over 90% of revenues are derived from raw sugar.
- Assuming constant commercial cane sugar (CCS) values, sugar prices, and exchange rates, this means industry revenues need to grow more than two percent per annum to retain profitability, competitiveness and resilience.

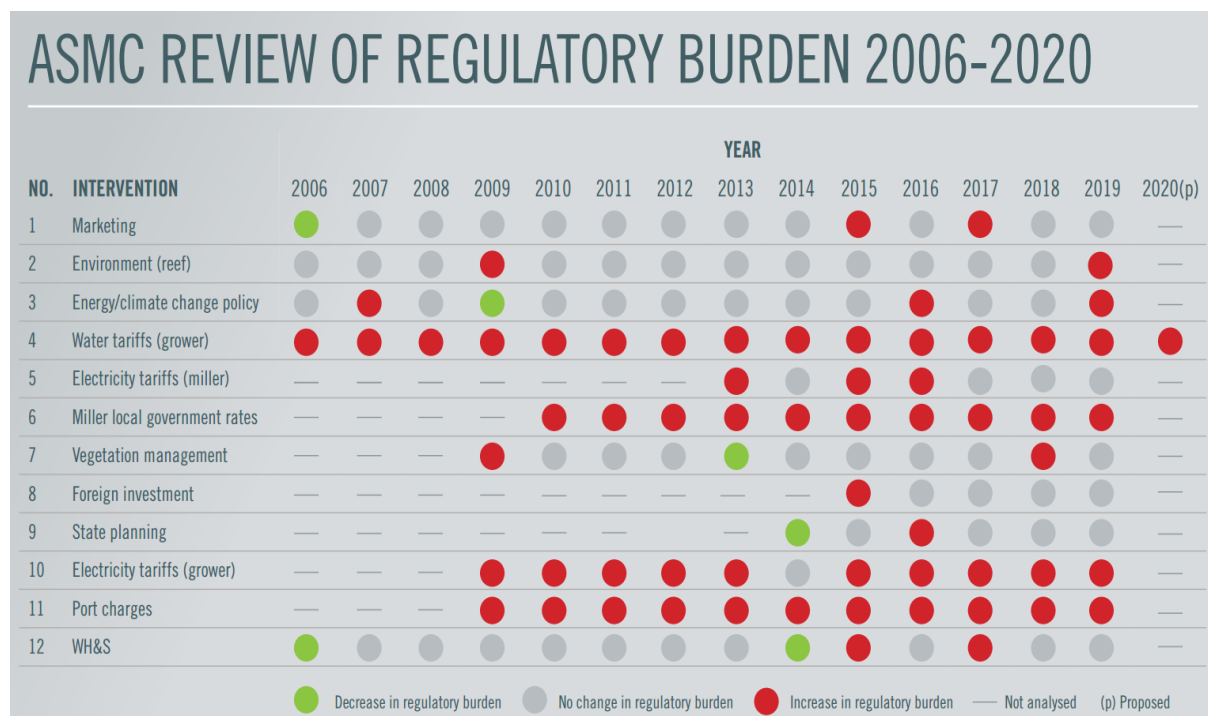
In short, the Australian sugar industry is heavily reliant on raw sugar, is severely limited in terms of expansion opportunities, and our productivity growth has stagnated.

### Regulatory burden an impediment to growth

To support its focus on a plan to revitalise the raw sugar industry, ASMC and its members are completing a review of the impact of all new and amended regulations on the sector over the past 14 years.

Our members evaluated changes in legislation since 2006 and concluded the sector has experienced a substantial increase in regulatory burden. The sector assesses that 40% of interventions during that period have imposed a medium or high burden.

Chart 2: The sugar milling sector’s regulatory burden 2006-2020



As a striking example, relevant government charges imposed on the sector have increased between 2.5% and 6.6% compound average growth rate (CAGR), while Australia's CPI has only equalled 1.8% over the relevant period.

Faced with an increasing regulatory burden, the Australian raw sugar industry must continue to invest and innovate to remain an efficient sugar producer at the lowest quartile of the cost curve.

### **The need for sugar industry revitalisation**

In response to the challenges the industry is facing, ASMC has outlined a number of priority areas of focus under the banner of *Sugar Industry Revitalisation*.

1. Diversification of revenue streams
2. Address the loss of acreage under sugarcane
3. Seek sugarcane and sugar yield improvements

Together with ongoing efforts to liberalise trade and enhance our social licence we believe a focus on these elements can improve the prospects of the industry.

### **Sugar Research Australia & the RDC model**

ASMC is highly supportive of the RDC model; one that is recognised internationally as a successful mechanism for delivering collective investment from industry and government in R&D. It is acknowledged however that improvements can be made, particularly to provide for the flexibility and agility that is needed.

While most focus is placed on on-farm productivity and sustainability improvements, from ASMC's perspective it is also important that the system can continue to meet the needs of large levy payers in the processing sector, particularly given the level of levy investment from sugar milling companies in SRA programs.

SRA is a young organisation, born out of significant reform and only established in 2013, but it can certainly benefit from a measure of review and reset.

For the current arrangements to benefit all participants, the model should consider the entire supply chain in the context of research, from strategic R&D to commercialisation.

In 2018/2019, SRA received income totalling \$39.02 million of which \$22.4 million was collected in levies, with \$11.2 million coming from the milling sector alone.

Of this investment, ASMC's members contributed in excess of \$10 million in levies to SRA, well in excess of even the Australian Government's matching contribution (\$6.6 million).

ASMC holds the view there are currently insufficient mechanisms in place to ensure milling sector levy payers have influence over the expenditure of their levy investments, and that there is inadequate accountability for SRA's performance to industry.

## Comments on the Discussion Paper

The discussion document repeatedly refers to improving value for farmers. For the current arrangements to benefit all participants, the model should consider the entire supply chain in the context of research, from strategic R&D to commercialisation. This is especially relevant given the significant investment into SRA by sugar milling companies.

ASMC welcomes the references in the discussion paper to risk and risk appetite. It is important for RDCs to have the courage to challenge/disrupt rather than opt for 'safe' avenues of investigation. The paper also makes mention of a need for flexibility and contestability. These are relevant questions in the context of the sugar industry's R&D arrangements.

Questions in the paper are posed as to whether there should be changes to the number of RDCs, how RDCs can increase collaboration, and the best ways for RDCs to engage with levy payers to inform investment decisions? It is not for ASMC to comment on whether there are too many RDCs, however we feel strongly that the sugar industry must retain its own single-commodity focused RDC, given the nature of the crop and industry.

Even more pertinent however is that sugar industry levy payers have backed this model through their significant contributions to SRA, well in excess of the maximum level for receipt of matching government funds.

With respect to collaboration, it is important to avoid forced joint projects for their own sake, or purely to seek some reduction in government expenditure. Clearly collaboration has and will continue to occur where RDCs see the opportunity. For its part SRA has been proactive in this area with over \$1.25m invested in cross-RDC collaborations just in the past two years. SRA has also established a joint-RDC staff position to focus on performance monitoring and evaluation.

ASMC shares the view expressed in the discussion paper that levy payers should have a greater role in investment decisions. This is why we have recommended that ASMC should be granted a formal role in the endorsement of SRA plans and performance metrics on behalf of sugar milling sector levy payers.

Such a move would provide greater accountability to levy payers, but additionally would ensure that once approved SRA would have strong industry commitment to its plans, thus avoiding any ongoing criticism from much of the industry and the distractions and uncertainty this can cause. SRA would arguably be free to take more risks in their investment approach if such a mechanism existed.

The paper raises a number of questions in relation to the balance of investment between R&D and extension, and how industry and levy payers can drive increased uptake of R&D.

Clearly the sugar industry needs a renewed effort to improve productivity through the greater uptake of existing R&D technologies and systems, and has acknowledged this through a number of SRA investments and complementary extension delivery mechanisms.



Together with sugarcane growers, sugar millers collectively invest between \$3 million and \$5 million annually to drive local extension and adoption through productivity service organisations.

More recently SRA has sought to work more strategically across the industry with extension providers to improve the uptake of R&D through an industry-led adoption strategy.

Through a sugar industry revitalisation strategy, ASMC is seeking to collaborate with other industry bodies to demonstrate leadership and inspiration to ensure even greater focus and effort is directed towards improving productivity and profitability.

Finally the paper questions whether RDCs might be able to increase their role in policy R&D and to participate in policy debate alongside industry representative bodies.

ASMC strongly supports the ability for SRA to fund research that can address clear policy questions and to make that research available for industry representative bodies to advocate and prosecute policy positions.

A recent example of this has been a project to develop an econometric model to inform the industry's trade policy and market access strategy. As the industry's policy research needs change dynamically, it is important that SRA is responsive to the needs of industry leadership in this area.

We do not believe that SRA should lobby on behalf of the industry or position itself as a representative body, nor has it sought to do so.

## **Conclusion**

The RDC model has served Australian agriculture well, and there is certainly potential for it to contribute strongly to the advancement of the raw sugar industry.

For it to do so effectively greater focus on the entire supply chain, and improvements in responsiveness, flexibility, agility and accountability are vital.