5 February 2021

Committee Secretary
Joint Standing Committee on Foreign Affairs and Trade
PO Box 6021
Parliament House
Canberra ACT 2600

Sent via email (jscfadt@aph.gov.au)

RE: Inquiry into expanding membership of the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CP-TPP)

The Australian Sugar Milling Council (ASMC) is the peak industry organisation for raw sugar manufacturing. We represent five sugar manufacturing companies which collectively produce 90 percent of Australia's raw sugar at 16 sugar mills in Queensland. The milling companies also market around 50% of the raw sugar and 100% of the white sugar and molasses that is exported from Australia.

In our submission (overleaf) we provide comment on:

- The risks to the Australian sugar industry of its high and increasingly concentrated export market dependency on raw sugar;
- The importance of Government vigorously pursuing new and revised bi-lateral and multi-lateral free trade agreements to improve Australia's comparative advantage for Australian raw and white sugar exports; and
- Our suggestions of countries that could be engaged to join the CP-TPP (U.S.A., China, Taiwan, Indonesia and Philippines).

While the broader strategic and technical merits of Australia advocating accession of the U.S.A., China, Taiwan, Indonesia and the Philippines to the CP-TPP are beyond our remit, we offer these views on an industry-specific basis for further investigation and discussion.

Whilst the industry currently also exports white sugar and molasses, our dominant export commodity is raw sugar, and our priority is to improve the trade policy and market access settings for the raw sugar we export.

Please contact David Rynne, Director Policy, Economics & Trade on david.rynne@asmc.com.au or 0431 729 509 for further clarification on the issues raised in the attached submission.

Yours sincerely

David Pietsch
Chief Executive Officer

ASMC Submission

The Australian sugar industry has a high and increasingly concentrated export dependency which is an emerging risk

The Australian sugar industry produces significant quantities of surplus raw sugar and minor surplus quantities of white sugar and molasses compared to domestic requirements. In relation to the surplus raw sugar we produce, we compete for market share in highly competitive export markets. As raw sugar is a highly homogenous commodity we compete against other exporting countries, such as Thailand, Brazil and Guatemala, largely on the basis of production and transport costs.

Approximately 74% of the industry's $2.3 billion in revenues was derived from export sales, with the majority of this from raw sugar sales (Table 1). The global raw sugar export market of approximately 58 million tonnes[1] is a distorted market, more often than not oversupplied with subsidised over-production and at prices (ICE#11) below the cost of production even for cost-efficient producers like Australia. Sustained periods of low export prices presents a significant viability risk for the industry.

Table 1: Australian sugar industry export revenue dependency

Export revenues		$ millions	
Export raw sugar sales	$	1,566	
Export white sugar sales	$	79	
Export molasses sales	$	35	
TOTAL	$	1,679	74%
Domestic revenues			
Domestic raw sugar sales	$	446	
Domestic molasses sales (not ethanol)	$	45	
Domestic electricity sales	$	30	
Domestic ethanol sales	$	72	
TOTAL	$	592	26%
TOTAL	**$**	**2,272**	**100%**

Source: ASMC company survey

Note - sales are calculated at 2020 prices and volumes are an annual average over the last 5 years

Over the past 20 years, the industry's export trade has become significantly concentrated with 78% of raw sugar sales now derived from just three countries (S. Korea, Japan and Indonesia), compared to 49% in 1998 (Table 2).

[1] International Sugar Organisation, 2020 Yearbook

Table 2: The increasing concentration of Australia raw sugar exports

1998 - Australian raw sugar exports countries of destination			
1	Korea, Rep. of	821,485	49%
2	Malaysia	791,832	
3	Canada	634,989	
4	Japan	634,883	51%
5	Iran	295,043	
6	Saudi Arabia	225,999	
7	Indonesia	223,594	
8	China (Taiwan)	199,527	
9	New Zealand	196,755	
10	USA	125,296	
11	Philippines	110,376	
12	Viet Nam	83,157	
13	Russian Fed.	57,879	
14	China	53,141	
15	Egypt, Arab Rep.	46,764	
16	Singapore	42,514	
17	Unknown	37,536	
18	Slovenia	28,696	
19	Bulgaria	26,192	
	Totals	**4,635,658**	**100%**

2019 - Australian raw sugar exports countries of destination			
1	Korea, Rep. of	923,127	78%
2	Japan	769,258	
3	Indonesia	441,869	
4	China	233,414	17%
5	USA	139,331	
6	New Zealand	82,444	
7	Other	134,290	5%
	Totals	**2,723,733**	**100%**

Source: International Sugar Organisation Yearly Handbooks

This increasing concentration is in response to a number of developments over the past 20 years:

(1) Asian markets have become less oversupplied over time and Physical premiums and returns have increased relative to non-Asian markets;
(2) The signing of bilateral trade agreements between Australia and S. Korea[2], Indonesia[3] and Japan[4] provided preferential (Tariff Rate Quota (TRQ)) market access, which in turn improved Australia's competitiveness, allowed development of niche product opportunities (e.g. the 'JB 1' hi-polarisation brand) and higher returns to Australian suppliers and foreign refinery customers; and
(3) Australian sugar marketers gave preference to high-volume, reliable refinery customers with low counter-party risk.

Whilst there are no immediate risks to Australia's ongoing access to the S. Korean, Indonesian and Japanese raw sugar markets - and these markets are likely to continue to maximise the sector's export returns under current global commercial and trade policy settings for the foreseeable future - there are medium to longer-term risks in these markets associated with:

[2] The Korea-Australia Free Trade Agreement (KAFTA) (2014) provides for unlimited quota from Australia to S. Korea at 0% duty.
[3] The Australia-Indonesia Comprehensive Economic Partnership Agreement (AICEPA) (2019) provides for an unlimited quota from Australia to Indonesia at 5% duty (consistent with Thailand under ASEAN).
[4] The Japanese-Australia Economic Partnership Agreement (JAEPA) and more significantly the CP-TPP provides for 0% fixed tariffs but high variable levies payable on high-polarisation and low-polarisation raw sugar (but to the lowest levels on any exporter).

- Sugar consumption falling in line with ‘maturing’ consumer tastes (Japan) and government dietary controls (Indonesia); and
- Greater competition from Brazil and Thailand should they expand their supply, improve their cost competitiveness and negotiate improved TRQs relative to Australia’s negotiated concessions (for example, Thailand is seeking access to the CP-TPP and comparable TRQ settings to the Japanese market to that of Australia which would significantly erode our market share).

To this end, the Australian sugar industry continues to assess and attempt to defray these price and concentration risks by:

- Assessing regions where import sugar demand is increasing and where price premiums could be captured;
- Understanding what TRQ concessions our competitors are seeking to achieve; and
- Assessing what TRQ changes would be required for the industry to maintain access to current markets as well as access new markets.

The risks of low global sugar prices and falling demand in our current markets can be offset by having a broader selection of competitive export destinations as this can increase the demand for Australian sugar, thereby attracting price premiums.

The importance of Government vigorously pursuing new and revised bi-lateral and multi-lateral free trade agreements as a source of comparative advantage for Australian sugar exports

Australian marketers (exporters) commonly sell sugar directly to overseas refineries on a Cost and Freight (CFR) ‘landed’ basis (to the destination port). CFR values have five elements:

(1) The Futures price (determined by global supply and demand conditions – typically A$380-600/t for raw sugar) (with the exception of the U.S raw sugar market that pays A$700-800/t depending on the AUD:USD due to a government mandated price floor); plus
(2) The Physical premium (an additional premium based on regional supply and demand conditions – typically A$5-$100/t depending on the local supply tightness); plus
(3) The Polarisation premium (an additional premium based on the whiteness of the sugar – typically A$17/t for Australian 99.3 Pol supply); plus
(4) Seaborne or inland freight (typically A$25/t from Australian ports to Asia); plus
(5) Tariff and import duties (can vary from $0 to $700/t).

Sugar is a homogenous commodity and marketers operate in a competitive market environment, largely on the basis of delivered price. However, whilst marketers can earn prices above the Futures price (1) through Physical and Polarisation premiums (2 and 3), they can also lose revenues and market share based on market rates for freight (4) and government determined tariff and import duties (5), which for sugar remain highly variable depending on the bi-lateral arrangements between the importing and exporting countries.

Accordingly, TRQs and tariff and import duty rates are a significant determinant of import competitiveness in the global sugar industry which means the Australian industry is highly incentivised to continue to work with the Australian Government to pursue new free trade negotiations to consolidate current and achieve new market opportunities.

Countries that could be included in the CP-TPP

In response to this Senate Inquiry, ASMC has undertaken a market scan to identify those prospective countries where:

- Sugar demand is growing (and as such, where physical premiums could be earned);
- Australian sugar supply is competitive on freight compared to Thai and Brazilian supply;
- Improvements in TRQ settings would put Australian supply on par or below the cost of alternative supply to that country; and
- That country is not already a signatory to the CP-TPP (e.g. Vietnam, Malaysia and Japan are signatories) and has not recently negotiated, or in the process of negotiating, a free trade agreement (e.g. the UK and EU).

The results indicate, prima facie, five countries worthy of potential access to the CP-TPP if the following TRQ concessions could be earned:

U.S.A.

- Australia currently has a very small minimum WTO allocation of 87,403 tonnes of raw sugar (out of a total import demand of 2.2 million tonnes) and 22,000 tonnes of white sugar to this market.
- This is the most lucrative market globally for raw sugar because of the generous U.S. Government mandated price controls (today's price of US$26c/lb or A$764/t is well above the current global Futures price of A$466/t).
- Internal analysis of likely future sugar consumption in the U.S.A. out to year 2040 indicates a strong average per annum increase of 0.6% or around 150,000t in additional demand per annum.
- Of note is that if the US-AUS TPP settings were restored[5] the Australian sugar industry's revenues would be $31 million higher in 2020/21 compared to what was actually earned[6].
- Australian industry would seek a TRQ concession similar to that negotiated but not implemented under the TPP.

[5] When the original TPP was negotiated, the U.S.A. agreed an additional 65,000 tonnes of access and 23 percent of future additional quota allocations.

[6] Australia in 2020/21 will have exported 87,402 tonnes (allocation) plus 7,733 tonnes (reallocation) equalling 95,135 tonnes. Under the TPP, Australia in 2020/21 would likely have exported 87,402 tonnes (allocation) plus 65,000 tonnes plus 18,124 tonnes (the 23% reallocation of 78,071 tonnes), equalling 170,526 tonnes. This additional 75,391 tonnes would have been sold at an approximate price premium of A$411/t higher than the Futures price generating an additional A$31 million in revenues.

China

- Australia currently competes for a portion of the WTO TRQ allocation of 1.945 million tonnes of raw sugar into this market at both the 15% (in-quota) and 50% (out-quota) rate depending on the marketer.
- Raw sugar purchases by Chinese refiners are pegged to global Futures prices.
- Internal analysis of likely future sugar consumption in China out to year 2040 indicates a strong average per annum increase of 1% or around 245,000 t in additional demand per annum.
- Of note is Australia did not achieve any preferential concessions for raw sugar in the China-Australia Free Trade Agreement (ChAFTA) but did secure a 0% duty for ethanol exports to China.
- Industry would seek no quota limitation and 0% duty for raw sugar to this market.

Indonesia

- Australia currently competes for around 4 million tonnes of market-driven raw sugar demand at a 5% duty. This reduction bought Australia's duty into line with Thailand.
- Raw sugar purchases by Indonesian refiners are pegged to global Futures prices.
- Internal analysis of likely future sugar consumption in Indonesia out to year 2040 indicates a very strong average per annum increase of 2.5% or around 268,000t in additional demand per annum.
- Industry would seek no quota limitation and 0% duty for raw sugar to this market.

Taiwan

- Australia currently competes for around 371,000 tonnes of market driven raw sugar demand at a 6.25% WTO duty.
- Raw sugar purchases by Taiwanese refiners are pegged to global Futures prices.
- Industry would seek no quota limitation and 0% duty for raw sugar to this market.

The Philippines

- Australia currently has a small WTO allocation of 64,050 tonnes of raw and 64,050 tonnes of white sugar.
- Australia currently competes for around 261,000 tonnes of market-driven raw and white sugar demand at a 65% applied tariff (compared to Thailand's 5% applied tariff for raw and white sugar).
- Industry reports that domestic production is falling and domestic consumption is increasing strongly.
- Raw and white sugar purchases into this market are pegged to global Futures prices.
- Industry would seek no quota limitation and 0% duty for raw and white sugar to this market.

Table 3 summarises the current global imports for each country, Australia's current trade agreement and TRQ settings for white and raw sugar as well as industry's sought after TRQ settings under a free trade agreement.

AUSTRALIAN Sugar Milling COUNCIL

Table 3: Current and sought trade policy settings with the U.S, Indonesia, China and Taiwan

Country and total 2019 imports (raws and whites)	Current imports (whites and raws splits and main suppliers)	Current trade settings for <u>Australia's</u> exports					Sought trade settings for <u>Australia's</u> exports			
		Trade agreement with Australia	Raws (1701.14)		Whites (1701.99)		Raws (1701.14)		Whites (1701.99)	
			Tariff Rate Quota	Applied Tariff	Tariff Rate Quota	Applied Tariff	Tariff Rate Quota	Applied Tariff	Tariff Rate Quota	Applied Tariff
U.S.A (2.9 mt)	2.2 mt in raws from Mexico (775k) and min. of 1.117 mt from WTO TRQ parties and 608k in whites mainly from Mexico (213k)	AUSFTA (sugar excluded from agreement)	Min. WTO quota allocation of 87,402t with a USD$14.60/t in and USD$338.70/t out of quota tariff	In-quota-rate of 1.4606¢/kg less 0.020668¢/kg for each degree under 100 degrees	Min. WTO quota allocation of 22,000t with a USD$14.60/t in and USD$357/t out of quota tariff	In-quota-rateof 3.6606 cents/kg less 0.020668 cents/kg for each degree under 100 degrees	Unlimited (Note - when the U.S was in the TPP Australian sugar had achieved an additional 65,000 tonnes of access and 23 percent of future additional quota allocations)	0%	Unlimited	0%
Indonesia (4.1 mt)	4 mt in raws from Thai and Aust mainly	IACEPA, and AANZFTA	None	5%	None	Rp 790/kg	Unlimited	0%	Unlimited	0%
China (4.4 mt)	2.9 mt in raws from Brazil, Tha, Cuba and Aust (183k). 1.5mt in whites from Brazil, Lao, Thai and S. Korea	ChAFTA (sugar excluded from agreement)	WTO TRQ of 1.945 mt with in quota rate of 15 per cent (covers raws and whites)	50%	WTO TRQ of 1.945 mt- with in quota rate of 15 per cent (covers raws and whites)	50%	Unlimited	0%	Unlimited	0%
China (Taiwan) (651k)	371k in raws from Thai and Guatemala. 281k in whites from Thai mainly	n/a	None	6.25%	None	17.50%	Unlimited	0%	Unlimited	0%
Phillipines (261k)	261k in whites predominantly from Thailand	AANZFTA (sugar excluded)	64,050 t WTO TRQ with IQR of 50% (covers 0701)	65%	64,050 t WTO TRQ with IQR of 50% (covers 0701)	65% (noting, 1% MFN tariff applies for 1701.99.10 -	Unlimited	0%	Unlimited	0%

Source: ASMC analysis and DFAT