

31 March 2021

Queensland Productivity Commission  
PO Box 12112 George Street  
BRISBANE QLD 4003

(sent via email: [Karen.hooper@qpc.qld.gov.au](mailto:Karen.hooper@qpc.qld.gov.au))

**RE: ASMC response to the QPC's *Improving Regulation* Research Paper**

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.

ASMC strongly supports government moves to reduce and improve the current stock of regulation, and improved assessment processes when considering further interventions. Based on our own detailed analysis, it is clear the Queensland sugar industry's regulatory burden has increased significantly since 2006 and this burden has added substantial costs, blunted investment signals and thwarted regional growth.

ASMC welcomes the opportunity to outline our current priorities of government in relation to improving the policy and regulatory environment; to present the findings of our 2019 analysis into the industry's regulatory burden; and provide our views on how government regulation could be further improved. Each is outlined in detail below.

***Our current priorities of government - Revitalisation Agenda***

Stagnant sugarcane yield and volume growth over decades, increasing grower and miller operational costs, limited diversification into value-added revenue streams, and sustained low sugar and cane prices is placing Queensland sugar industry operations under continuing financial stress (growers and millers).

In response, Industry leaders have set three objectives to guide recovery:

- (1) Increase cane and sugar yields and volumes and decrease operational costs

Currently averaging around 30 million tonnes (Mt) of annual cane production, the Queensland industry has set a new target of 35Mt per annum (within 10 years). Increasing both cane and sugar production will deliver significant economies of scale and viability benefits.

- (2) Increase or at least maintain the area of sugarcane

Currently at 380,000ha, the industry has lost (on average) around 4,750ha per annum over the past 20 years to timber (through the tax-incentivised managed investment schemes), bananas, cattle, tree crops (predominantly macadamias and avocados), solar farms and urban encroachment.

- (3) Increase revenues from complementary, diversified, value-add streams

Currently, only 5% of the industry's \$2.2 billion in annual revenue is derived from diversified revenue streams (ethanol and exported co-generated power). Under the right commercial and policy settings ethanol and exported co-generated power output could increase from \$112m to \$340m at current market and LGC prices, increasing the contribution to 20% of the industry's total revenues (of \$2.5 billion). Achieving this would provide an important hedge against volatile global raw sugar export prices. Revenue diversification promotes objectives (1) and (2) (above)

as additional revenue from diversification provides greater financial stability for the sugar milling sector with the potential for some of this revenue to be shared with growers. When combined, these two factors can incentivise increased productivity through higher yields and retention of the land available for cane farming.

Industry leaders are developing a Vision and Roadmap to achieve these three objectives including a more sophisticated dialogue with government to improve policy and regulatory settings (the *Revitalisation Strategy*). The initial phase will see industry and government commit to multiple investigations in the areas of water pricing, energy pricing, government capital programs, self-regulation, planning, diversification incentives and labour and skill requirements.

***ASMC report: Regulation Overload – a review of government regulations impacting the Australian sugar industry and their implications for revitalisation and long-term sustainability***

The need for a *Revitalisation Strategy* stemmed from a report (see attached) completed by ASMC and McCullough Robertson Lawyers in 2019<sup>1</sup> to understand whether excessive or poor regulation was contributing to the industry's lacklustre performance.

The report found between 2006 and 2019 and across 12 regulatory areas, the Australian sugar industry experienced significantly more years where the regulatory burden increased compared to years where there was no change or a decrease in burden (refer table 1, pg 7).

Furthermore, mill company management believed that of the 15 most significant government interventions since 2006 in the industry, six had either a medium or high adverse impact on mill viability (refer table 2, pg 7). Of note is the impact adverse canegrower regulations (i.e. Reef regulations and grower water tariffs for example) have on the milling sector. This reflects the reliance the milling sector has on a prosperous and viable growing sector, and vice versa.

***ASMC views on the Improving Regulation paper***

Fundamental to good regulatory practice is a demonstrated need for government intervention and clear evidence of a market failure. Secondly, if that can be proven, there must be evidence that the most preferred intervention is likely to generate higher benefits than costs.

These concepts are at times difficult to determine and require a thorough regulatory impact assessment (RIA) to be undertaken. However, there is no mandatory requirement for RIAs to be undertaken in Queensland and the advice is not binding on government. ASMC would support a tightening of the requirements that determine when a RIA is required to when there is community conjecture, the operating environment is dynamic, or anything beyond 'moderate impacts' is anticipated. Further, we believe that the advice contained in RIAs that are broadly supported should be binding on government in policy development processes and RIAs should be reviewed by an independent authority.

Further, government interventions that proceed but are contentious amongst stakeholders or there is a dynamic operating environment should have a 1-3 year mandatory review provision included and regulations should be rescinded if there is no demonstrable evidence of market failure or net community benefit after the review.

---

<sup>1</sup> ASMC and McCullough Robertson Lawyers, *Regulation Overload – a review of government regulations impacting the Australian sugar industry and their implications for revitalisation and long-term sustainability*, September 2019

The passing of the *Sugar Industry (Real Choice in Marketing) Amendment Act 2015* (Qld) despite the QPC's own RIS finding that there was no market failure and the benefits of regulation would not outweigh the costs is a case in point. Another example is the passing of the *Environmental Protection (Great Barrier Reef Protection Measures) Other Legislation Amendment Act 2019* (Qld) based on a RIS that was strongly rejected by industry because it did not include a full assessment of the broad social, economic and environmental impacts of the proposed policy.

The other significant concern of our industry is the disconnect between Queensland Competition Authority pricing principles and determinations (namely irrigation price investigations and regional electricity prices) and an assessment as to whether the proposed prices are affordable to consumers and will lead to behaviours that are in the broad public interest.

Per Chart 1, pg 7 of the *Regulation Overload report*, irrigation and electricity prices for growers and growers/millers respectively have increased substantially over the past 10 years on a compound average growth rate basis<sup>2</sup>. The consequence, especially at the grower level, where irrigation and electricity prices constitute almost 20% of total operating costs, is to not irrigate or not irrigate optimally, thereby reducing yields, cane volumes and mill viability. The issue is made worse because government service providers are often unwilling or unable to negotiate with consumers outside of the regulated prices and reach pricing terms of a commercial basis.

ASMC would support an amendment of water and electricity pricing principles to include a stronger focus on economic efficiency as well as the introduction of a RIA requirement on GOC service providers subject to QCA price determinations to ensure that the prices are affordable and will promote economic efficiency and net community benefits.

Given government silos, regulators are not usually aware of the incremental burden their regulation may be adding to the aggregate local, state and federal regulatory burden of an industry. ASMC would support a requirement in RIAs for the broader operating environment of the industry (i.e. profitability and affordability) and the total regulatory burden to be taken into account when assessing whether the intervention is required.

ASMC supports self-regulation as a means to lower the costs and investment distortions created by regulation. For example, the canegrowing sector has a voluntary accreditation program called Smartcane BMP which promotes, inter alia best practice farming in soil health, irrigation, and weed, pest and disease management. ASMC supports government policies that both reward currently accredited growers and incentivises non-accredited growers to become accredited as a means of reducing the need for direct regulatory intervention.

ASMC also believes that enforcement of regulation is imperative as without it the regulation can be rendered futile. For example, the Queensland biofuel mandate requires that liable fuel retailers sell as a minimum of 4% of the total volume of regular unleaded petrol sales to be ethanol blended petrol sales (such as E10). However, reported ethanol volume sales between January to March 2020 were only 3%<sup>3</sup>. Because there is poor enforcement of the mandate and oversupply in the domestic ethanol market ethanol prices remain low and ethanol production remains expensive and unprofitable which potentially undermines the main objective of the policy.

---

<sup>2</sup> Canegrower electricity tariff (T20) has increased on average 2.5% per annum between 2009-2019, Canegrower water tariffs on a weighted average basis have increased on average 3.9% per annum between 2009-2019, and miller electricity tariff (T22) has increased on average 4.3% per annum between 2009-2019.

<sup>3</sup> <https://www.business.qld.gov.au/industries/manufacturing-retail/retail-wholesale/selling-fuel-qld/qld-biofuels-mandates/fuel-seller-statistics>

Please contact David Rynne, Director Policy, Economics & Trade on [david.ryne@asmc.com.au](mailto:david.ryne@asmc.com.au) or 0431 729 509 for further clarification on the issues raised in the attached submission.

Yours sincerely

A handwritten signature in black ink, appearing to read 'D. Pietsch', with a stylized flourish at the end.

David Pietsch  
Chief Executive Officer