



Wilmar's Pioneer Mill in the Burdekin Region

OCT 2021

# SUGAR POLICY INSIGHTS

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## FROM THE CEO

As the incoming Chief Executive Officer of the Australian Sugar Milling Council – welcome to this edition of Sugar Policy Insights. We are pleased to be able to share with you the outcomes of the latest research and activities we have been working on

From the outset, I was excited to be able to join this iconic and important industry for Queensland and Australia. In my early weeks in the role, I have ventured out to see the crush in action. As we go to print we are approaching 70% of the crush completed despite early weather setbacks.

During my regional tour we met stakeholders and visited Wilmar Sugar, Tully Sugar, MSF Sugar, Mackay Sugar's Racecourse mill and Wilmar's Sarina Ethanol Distillery. I was also able to visit a cane farm during harvesting and talk directly with the grower about his operations. The visits also took in Sugar Terminal Limited's operations in Mackay and the vast sugar sheds. The huge

logistics exercise and cooperation between all facets of the supply chain was indeed something to behold.

**The resilience, resourcefulness and co-operation that characterises the people I have met make me excited to be part of this industry.**

In October, development of the Sugar 2040 Industry Roadmap, supported by the CRC- North Australia and Queensland Department of Agriculture and Fisheries was announced. Working with five other sugar industry bodies on this roadmap will be a key priority in my early days at the Milling Council.

The commitment to the roadmap represents the optimism that we see for the future of the sugar industry and the contribution we can continue to make to regional economic development.

## FROM THE CEO *(Continued from page 1)*

Rachele Sheard, CEO



We have a great team at ASMC, so working with them to continue their excellent work on the trade and regulatory agenda will be a priority. In this edition of Sugar Policy Insights we outline the importance of achieving 34 million tonnes (T34) of consistent Queensland cane supply per annum, a pathway to getting there, and a number of commercial and public reforms required. The paper is released for debate, discussion and as an input into the development of the Industry Roadmap.

As I meet with stakeholders over the coming weeks and months, it will be important to hear your feedback and input on these and other initiatives that the ASMC and broader industry is working on. Initial early meetings with the Chair and Chief Executive Officers of CANEGROWERS and Sugar Research Australia were important in understanding the broader industry context and different views on the issues and challenges ahead for the sector. Co-operation and collaboration is really at the heart of what makes this industry work and I look forward to being able to contribute to this in a positive way.



## TARGET 34 – A PATHWAY TO SUSTAINABLE QLD CANE SUPPLY

David Rynne, Director, Policy, Economics and Trade



After months of analysis and discussions with members, the ASMC in this SPI edition is releasing its [Target 34 paper](#).

Written and prepared by the ASMC secretariat, the paper outlines the importance of achieving 34 million tonnes (T34) of consistent Queensland cane supply per annum, a potential pathway, and a number of commercial and public reform suggestions to get there. The paper is released for debate and discussion and as an input to the development of the 2040 Industry Roadmap.

### THE PROBLEM STATEMENT

Flat cane yields and falling cane area is causing reduced cane supply growth which in turn is creating greater mill capacity under-utilisation. Coupled with a lack of revenue diversification, Queensland sugar industry operations will continue to be placed under financial stress if left unaddressed.

### THE OBJECTIVES

ASMC supports three objectives in response:

- (1) Increase cane yields and Queensland cane supply from a 10-year average of 30.4 million tonnes (Mt) to a consistent 34Mt per annum (within 10 years);
- (2) Maintain the net area under sugarcane; and
- (3) Increase revenues from complementary, diversified, value-add streams.

Increasing Queensland cane production by 3.6 Mt over 10 years is ambitious but necessary. 34Mt represents the combined cane crushing capacity of the State's mills (Chart 1) and if achieved consistently would significantly improve mill economies of scale and viability. It would also give mills the confidence to invest, potentially, in value-add diversified projects.

The objective of the mills is to achieve consistently higher cane supply, utilise all current milling capacity as well as create additional value-add, diversified revenue streams from by-products of the sugar milling process.

The ability to generate more revenue from each tonne of cane processed and share a portion of these increased returns with growers under a shared value creation and/or investment approach will be important to keeping growers viable and achieving 34Mt of annual production. It should be noted that diversification strategies are a complement to the 34Mt per annum target, and do not replace this important goal.

**CHART 1: QUEENSLAND SUGAR MILLING: 2020 CANE SUPPLY AND SUGAR PRODUCTION VS AT CAPACITY**

	2020 PERFORMANCE			MILL CAPACITY UTILISATION (as % of cane supply)
	2020 CANE SUPPLY (T)	SUGAR (IPS) PRODUCED (T)	MILL CAPACITY (of cane supply) (t)	
Northern (Mossman 1x Mill)	647,983	85,060	1,500,000	43%
Northern (MSF 3x Mills)	3,369,728	383,590	4,000,000	84%
Northern (Tully 1x Mill)	2,463,432	301,509	2,750,000	90%
Herbert (2x Mills)	4,250,399	564,653	4,800,000	89%
Burdekin (4x Mill)	7,905,092	1,219,567	8,700,000	91%
Central (Proserpine 1x Mill)	1,535,660	221,827	2,100,000	73%
Central (Mackay Sugar 3x Mills)	5,151,542	697,300	5,700,000	90%
Central (Plane Creek 1x Mill)	1,234,352	184,265	1,500,000	82%
Southern (Bundaberg 1x Mill)*	1,047,595	159,852	1,100,000	95%
Southern (Isis 1x Mill)**	808,815	150,623	1,500,000	54%
Southern (Rocky Point 1x Mill)	281,110	25,411	350,000	80%
<b>Total</b>	<b>28,695,708</b>	<b>3,993,656</b>	<b>34,000,000</b>	<b>84%</b>

\*Bundaberg Sugar had two operational mills in 2020 and one in 2021.

\*\*Another 633,914 tonnes was supplied to MSF Maryborough Mill that was subsequently closed.

Source: ASMC member companies

## A PATHWAY TO T34

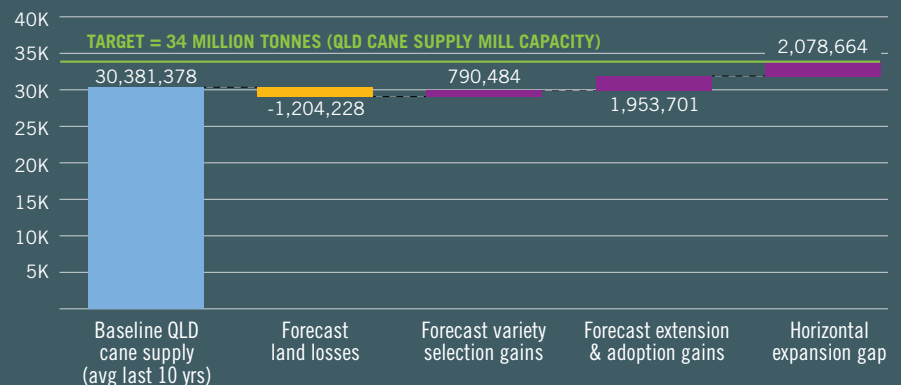
To understand the potential pathways to reaching 34Mt, ASMC developed a projection model based on yield quartile bands and applied a number of assumptions around likely cane variety adoption, extension & adoption (E&A) success and loss of cane land over the next 10 years to estimate the likely relative contribution of these, along with horizontal expansion as cane supply drivers.

The modelling work found that increasing Queensland production by the 3.6Mt needed (from a baseline of 30.4Mt) is theoretically achievable but difficult. The assumptions adopted in this report increased Queensland cane supply by 1.6Mt by year 10 consisting of:

- An increase of 2Mt from improved E&A;
- An additional 0.8Mt from improved variety adoption; and
- A loss of 1.2Mt from reduced cane area.

Excluding the variable impacts of good weather and sugar and cane prices, it is clear from the analysis that achieving T34 will require more efficient and aggressive E&A, variety development and adoption as well as measures to maintain the net stock of cane land such as horizontal expansion to close the 4Mt gap that is in place today (Chart 2).

### CHART 2: A PATH TO A CONSISTENT 34MT (AFTER 10 YEARS) (ASSUMPTIONS OF ASMC MEMBER REPRESENTATIVES ADOPTED)



## A COMMERCIAL AND POLICY REFORM AGENDA

To achieve more effective E&A outcomes and to assist growers to achieve significantly improved farming practices this paper supports more effective risk-based E&A delivery models and eventually a transition to a more **outcomes based and commercially driven E&A delivery model**. To assist growers' transition to new ownership and operating models the paper supports:

- (1) **Development of an industry in-bound investment document** that, inter alia, outlines the benefits and opportunities of cane farming vis-a-vis other uses to domestic and foreign investors. Further, in encouraging foreign investors, ASMC also supports more workable foreign investment (FIRB) rules.
- (2) **Providing assistance and actively facilitating** growers to work through divestment, succession, leasing and share farming options to achieve farm consolidation; and
- (3) **Improved government capital loan schemes** and a review to assess whether the Regional Investment Corporation (RIC) and Queensland Rural and Industry Development Authority (QRIDA) funding programs assist with on-farm productivity improvements and positive new ownership and operation approaches. Issues for review would include market knowledge of products, approval times, paperwork burden and security requirements (ratios).

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To assist with improving farm profitability the paper supports:

- (1) **Further work to make regulated water and electricity costs more affordable for growers** including consideration of higher Government imposed efficiency requirements on Government Owned Corporation (GOC) providers and changed pricing models to encourage greater efficiencies and lower costs;
- (2) Cane planting represents a significant component of grower costs and support should be given to the commercialisation of **seed planting** as a way to reduce costs and encourage more growers to the sector;
- (3) **Improved policy certainty and policy incentives** to encourage greater investment in first generation opportunities such as cogeneration of electricity and bio-fuels and **strong technical, policy and commercial collaboration and partnerships** to develop the second generation opportunities in areas such as synthetic biology, bio chemicals and bio plastics; and
- (4) **Replace the pre-contract arbitration and remove the *Grower choice* clauses** in the *Sugar Industry (Real Choice in Marketing) Amendment Act 2015* (Qld) and the *Competition and Consumer (Industry Code – Sugar) Regulations 2017* (C'wth). This means that pre-contract arbitration would not allow millers post-investment revenue to be at risk via an arbiter's decision on cane supply agreements and would remove the rigidity of *grower choice* to allow more flexibility in pricing cane if cane juice is used for non-sugar manufacturing purposes.

The paper also supports a **strengthening of the prime agriculture land protections in State Planning Policy** and **infrastructure development incentives** to assist with horizontal expansion and the commercialisation of geographically distant cane lands.

## 2021 HARVEST BRINGS CHALLENGES

Jim Crane, Director, Industry and Government Affairs



As the 2021 crushing season enters its final stages, sugar millers and growers will all be paying close attention to the weather outlook as we move from a 'soggy' spring into what we hope will be a late start to the wet season.

Weather has already disrupted the harvest in three of Queensland's four sugar growing regions with the Wet Tropics from the Herbert area north being the worst affected with some crush totals being affected from shortfalls in cane supply for up to 50% of the weeks since the crush began in June this year.

The impact of wet weather in the Burdekin was significant with crushing limited to about 25% of capacity for the first two weeks of September as ground conditions were too wet for harvest. Mills in the Central region also had their crushing impacted during this period with five to six days of crush time lost as a result of wet field conditions.

Disappointingly, crops in the Wet tropics region having been cutting out well below estimate in some areas. This has seen a reduction of 850,000 tonnes in the crop forecast for the areas from the Herbert north since the beginning of the season. In dollar terms, this represents a downturn of more than \$60 million in revenue for the industry compared to expectations in June.

These losses are felt right through the supply chain with harvesting contractor revenues down by over \$7 million and even to our industry research company Sugar Research Australia which will see its potential levy revenue for the year down by close to \$600,000 as a result.

With the reduced crop forecast in the Northern region and providing there are no further major weather disruptions, the crush will be completed in early November for three of the factories, while the other three are aimed up at finish dates ranging from mid-November through until early December.

This is a similar scenario for the mills across the Burdekin, Central and Southern regions with potential finish dates from mid-November through to mid December.

With global sugar markets trending upwards and well into profit territory, anxiety levels will be high in terms of getting the right weather conditions to process the remaining sugarcane this season.

Just as importantly, growers are looking for suitable conditions to complete a large planting effort spurred on by the attractive prices available for the 2022 crop. Where ground conditions have allowed for it, planting has continued well into October this year.

### 2022 OUTLOOK

While it is still too early to get a feel for the total area of sugarcane that will be available for harvest in 2022, an outlook of sugar prices that will generate a profit for the Australian industry is typically a key indicator of improved production.

### About ASMC

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

Our members manufacture 90% and collectively market 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.