

## AUSTRALIAN SUGAR MILLING COUNCIL 2024/25 STATE BUDGET SUBMISSION

### SUMMARY OF MEASURES AND BENEFITS AND COSTS

The Australian Sugar Milling Council (ASMC) seeks a commitment of support in the forthcoming 2024/25 State Budget to the following policy and funding measures:

- Improved Government forecasting and public messaging of current and likely skills deficits and a more flexible and demand responsive vocational training framework;
- Improved co-ordination of State Government land releases to encourage affordable housing in regional Queensland;
- An Infrastructure partnership program to improve the efficiency and public safety and environmental benefits of the Queensland cane rail network;
- Additional financial assistance for co-generation feasibility assessments;
- Financial support to identify least-cost carbon abatement opportunities in milling; and
- Financial assistance for bio-fuel R&D and commercialisation projects.

Costing approximately \$36 million between 2024/25 – 2026/27, these measures would:

- Lower costs, improve business continuity and promote the viability of the Queensland sugar industry;
- Achieve significant carbon abatement; and
- Assist with unlocking considerable additional investment to the benefit of the industry and regional Queensland.

History would demonstrate that the supply side of the global sugar market is slow to respond to high prices meaning the current level of prices enjoyed by the industry may continue for a number of years. This 'purple patch' presents an excellent opportunity for the industry, with government, to pursue a suite of pro-growth policy settings to support jobs and income growth in regional Queensland.

### BACKGROUND TO THE ASMC

The ASMC is the peak industry organisation for the raw sugar manufacturing sector. We represent sugar manufacturing companies which collectively produce 82 percent of Australia's raw sugar.

The Australian sugar manufacturing sector in 2022 had annual production of:

- 4.2 million tonnes of raw sugar at 22 mills from 32.4 million tonnes of cane received;
- 1 million MWh's of green co-generated electricity from 440MW's of installed co-generation capacity;
- 1 million tonnes of molasses; and
- 60 million litres of ethanol from the Sarina distillery for domestic E10 and other industrial usage consumption.

In 2023, sales of raw sugar, exported electricity, molasses and ethanol is expected to generate around

AUD\$2.5 billion in revenue for the Australian sugar manufacturing sector with returns reinvested locally into the maintenance and upgrades of sugar mills.

In 2021, the Queensland sugar industry (cane growers and raw sugar millers) employed around 20,000 people and contributed around AUD\$4 billion in Queensland Gross State Product<sup>1</sup>.

## THE SUGAR MANUFACTURING SECTOR'S 5-YEAR OBJECTIVES

To promote the long-term viability of the industry and the prosperity of regional communities, the ASMC and member companies in conjunction with communities, government and stakeholders endeavour to achieve the following objectives within the next five years:

- A regulatory environment that is conducive to new investment in the industry;
- Investment in value-add revenue diversification projects;
- A consolidation of the industry's social licence by promoting the industry's sustainability performance and valuable socio-economic contribution;
- Continual improvement of the industry's sustainability performance;
- Co-funding (industry and government) for cane transport infrastructure where there are significant community spillover benefits;
- Address skills and labour shortages; and
- Improved worker attraction and retention by improving the availability and affordability of housing.

## THE OPERATING ENVIRONMENT OF THE AUSTRALIAN SUGAR MANUFACTURING SECTOR

The operating environment of the Australian sugar industry and sugar manufacturing sector has improved in recent years but remains problematic in a number of key areas.

### *The positives*

As a price taker in a volatile global sugar market, the Australian sugar industry is currently enjoying improved sugar prices and a return to profitability. These high prices reflect:

- A softening Australian dollar;
- Policy controls on exports (India);
- Weather related supply disruptions from the three largest global producers (Thailand, India and Brazil);
- Supply deficits in the Far East Market where Australia competes for market share (South-East, East and South Asia);
- The potential for drought (El Nino driven) which threatens future supplies of cane and sugar; and
- Strong global demand for sugar post COVID-19.

Compared to 2022, 2023 has seen an approximate 5% increase in the amount of Queensland cane land under cultivation and quantities of potential annual cane supply have stabilised. The higher utilisation of mill assets and higher sugar prices has resulted in mills committing significant amounts of capital (~\$300 - 400 million) for mill renewal before the commencement of the 2024 crush (June 2024). This capital is 'stay in business' capital and is spent to ensure the ongoing reliability of the mills in subsequent seasons.

A current initiative of industry stakeholders is the development of a *2040 Industry Roadmap*. The *Roadmap* sets out a reform agenda to stabilise and increase cane and sugar production as well as to diversify revenue

streams – thereby reducing the milling sector’s current 90% reliance on raw sugar revenue sales. Subsequent investigations by the ASMC with its milling company members suggests:

- Additional co-generation supply (i.e producing electricity from heat and steam from burning bagasse) and:
- Bio-fuels supply (i.e molasses and/or bagasse and tops and trash to ethanol and then to sustainable aviation fuel for example) ...

are becoming increasingly prospective near term opportunities as companies pursue de-carbonisation and enabling policies and technologies create demand and lower costs.

Other opportunities, like the manufacture of hydrogen, animal protein, bio-plastics and bio-methane from bagasse, tops and trash and sugar appear to be more medium to longer term opportunities.

Further, recent activities in the state regarding potential purchasing activity of sugar manufacturing assets indicates that the objectives of the Roadmap are real and possible under the right circumstances.

#### *The constraints*

Whilst this is a positive near-term outlook, there are a number of constraints to growth and operating challenges, including:

- The pre-contract arbitration and Grower choice clauses introduced in the *Sugar Industry (Real Choice in Marketing) Amendment Act 2015 (Qld)* create an unacceptable risk for new investment and should be removed;
- The inability to attract and retain essential mill and seasonal workers during the crush and non-crush periods remains an ongoing concern;
- Cost inflation (high labour, electricity and diesel) continues to erode competitiveness and returns pushing Australian sugar millers up the global cost curve;
- The lack of a domestic carbon price makes it difficult for bio-energy products (co-generation, bio-methane and bio-fuels) to compete with traditional (fossil fuel) energy sources. This creates an ongoing need for government to introduce supply and/or demand incentives to bio-energy proponents to encourage investment;
- The potential for land-use conflict between renewable energy projects and cane land (as prime agricultural land) is a current and increasing threat; and
- Like the broader Australian agriculture industry, the workforce of the canegrowing sector is aging with a need to encourage the next generation of growers to enter the industry or expand their current interests to unlock ongoing innovation in sustainable farming and yield potential.

WE SEEK STATE GOVERNMENT SUPPORT TO THESE POLICY AND FUNDING MEASURES

#### **ADDRESS SKILLS SHORTAGES AND IMPROVE WORKER ATTRACTION AND RETENTION**

**Improved government forecasting and public messaging of current and likely skills deficits and a more flexible and demand responsive vocational training framework:** The sugar manufacturing sector employs some 4,500 workers during the non-crush period and an additional 20% seasonal workforce during the crush (June-Nov). Survey data indicates that at the peak of the crush, the sector had an approximate 10% vacancy rate of positions and a high turnover of staff.

In sugar manufacturing, the major structural skills deficits are predominantly in the trades (electricians, boilermakers and fitters and turners). During the crush the major skills deficits are process operators, traffic officers and locomotive and truck drivers (multi-combination). Despite companies continuing their long-

standing commitment to trade apprenticeship programs and attempting to source workers on various temporary work visas, the sector continues to find difficulty competing with the higher wages offered in the resource sector and aligning competencies earned abroad with domestic requirements under the various work visa schemes.

The ASMC supports the following policy measures to improve the attraction and retention of key workers in the sugar manufacturing regions:

- Improved government forecasting of industry labour supply and demand imbalances. Government should undertake comprehensive modelling to identify each industry's anticipated labour and skills requirements and compare that with anticipated labour supply over the medium term;
- A public information campaign on these findings and skills gaps to assist decision making in the labour market, including any required changes to vocational training (number of spots and course design) to ensure current and future needs can be met; and
- Increased pressure on the Australian Government to deliver more flexible temporary work visas programs that allows competencies earned abroad to be better aligned to Australian competency requirements. Quicker processing of the visa applications would also be of assistance.

**Improved co-ordination of state land releases to encourage affordable housing in regional Queensland:** The lack of affordable housing and high rents in sugar manufacturing regions makes attracting and retaining labour difficult. Whilst sugar manufacturing companies have responded to these pressures in a number of ways, including building temporary accommodation and offering rental assistance to workers, there is a real need to increase housing supply. Consistent with the *Queensland Housing Strategy (2017-2027)* ASMC supports Government informing and allowing the market (notably developers and the building industry) to better respond to opportunities by better co-ordinating the release of underutilised and vacant State Government land in conjunction with local governments.

## **A SAFER AND CLEANER CANE INFRASTRUCTURE SYSTEM**

**An Infrastructure partnership program to improve the efficiency and public safety and environmental benefits of the Queensland cane rail network:** Sugar manufacturing companies have invested heavily in cane railway infrastructure (replacement value > \$A2 billion) to provide for the transport of sugarcane to their sugar mills for processing. Across Queensland, this cane railway network saves up to an estimated 25,000 truck movements on the public road network per day during the annual crushing season resulting in improved public safety and environmental benefits (given the fuel efficiency and carbon benefits of rail transport operations versus truck haulage by road).

However, given the age of this railway network, and the encroachment and growth of townships, elements of this infrastructure – in certain sugar regions – are now problematic and require upgrades. The ASMC has identified five discrete infrastructure projects to upgrade and enhance the Queensland cane railway network to support continued cane supply and to improve public safety and to lower greenhouse gas emissions.

The industry is seeking a Government co-contribution of \$25 million (combined) to the five projects below given the significant community spill over benefits that would occur:

1. Relocation of cane railway infrastructure from the township of Ingham, eliminating 12 road/rail level crossings through the township by re-routing the delivery of 2.2 million tonnes of cane to the Victoria Sugar mill annually;
2. Increasing road safety on the Bruce Highway north of Mackay by eliminating a highway level crossing and replacing it with an underpass at Church Hill thereby avoiding up to 100 minutes/day of road highway closures during the annual crushing season;

3. An 8 kilometre extension of the Tully Sugar Mill cane railway including a bridge across the Murray River that will remove approximately 5,000 truck movements from the Bruce Highway;
4. Extension of the Plane Creek Mill southern cane railway including the construction of a new bridge at Carmila that will remove more than 15,000 truck movements from the Bruce Highway; and
5. Enable the construction of a dedicated cane railway bridge across the Burnett River to provide direct access for the cane supply located on the Northern side of the River to the Millaquin Sugar Mill.

### **LOWER INPUT COSTS**

**Provide continued assistance under the Electricity Tariff Adjustment Scheme:** Whilst Queensland sugar mills generate almost 1 million MWh of bioenergy (bagasse co-generation) each year and are largely energy self-sufficient, they also import around 26,540 MWh of electricity per annum mainly during the non-crush period (December – June). The sector purchases this electricity mainly from Ergon under QCA regulated prices. The mills are quite different in their power in/out configurations with some having low kVA and others with high kVA demand. This is significant from a cost perspective given Ergon’s move to kVA demand and capacity based tariffs. Analysis indicates that the impact of removing the obsolete tariffs T48 and T22 is significant on the industry, with (8) mills incurring an additional \$1.3 million in costs per annum in aggregate as they transition to the next best least-cost tariff. The ASMC supports a continuation of the ETAS program for millers and growers.

### **DE-CARBONISATION**

**Additional financial assistance for co-generation feasibility assessments:** ASMC understands that the Expression of Interest (EOI) process for the \$4 million in funding in the Queensland Energy & Jobs Plan (Action 1.9) will soon commence. To assist the sector increase co-generation output from 440 MW to in excess of 1 GW, the ASMC welcomed the inclusion of the \$4 million in the QE&JP and we urge Government to allocate an additional \$6 million in the 2024/25 budget for additional planned assessments.

**Financial support to identify least-cost carbon abatement opportunities in sugar manufacturing:** As a way of leveraging current industry R&D funding contributions and achieving needed funding, ASMC supports an initial allocation of \$5 million to Sugar Research Australia (SRA) to assist the sugar manufacturing sector achieve improved feedstock utilisation and to identify least cost abatement opportunities to achieve net zero by 2050. Government assistance is sought due to the broad community benefits and the high-risk nature of the associated R&D in this area. Initial projects that could be investigated include:

- Behind the meter use of batteries and smart algorithms to optimise electricity revenue from cogeneration in light of the increased negative pricing period and volatility;
- Potential generation of hydrogen from cogeneration and use in loco diesel engines;
- 2nd generation ethanol production from bagasse and in particular the treatment of digestate via anaerobic digestion or boiler combustion and combination with mud/ash; and
- Concentration of dunder from 1st generation ethanol to generate energy.

Ideally, SRA would receive this funding and engage third-party experts with guidance from government and industry with the findings shared.

**Financial assistance for bio-fuel R&D and commercialisation projects:** ASMC believes that for Australia to take advantage of the very significant emerging opportunities for substitute bio-fuels, there must be a suite of integrated State (Queensland) and Federal policies that support production scale to increase the competitiveness of bio-fuels compared to traditional fossil sources and reduce price gaps. This is likely to require:

- **Demand side interventions** such as progressive and enforceable Australian Government mandates (targets) that compels refiners to purchase various bio-fuels in pre-defined quantities (like the U.S biofuel blending mandate program). For example, and in the context of Sustainable Aviation Fuel (SAF), this type of fuel supply could be incentivized through a bio-fuels blending mandate policy that compels refiners to purchase pre-defined quantities of certain types of bio-fuels (of which ethanol is one type of pre-defined bio-fuel). In turn ethanol and all other types of mandated biofuels eligible would be required to be purchased and depending on market forces, this ethanol would ideally go to its highest value use – be that E10 for road transport, or for SAF, or bio-diesel etc; and
- **Supply side support** for biofuel refiners by way of:
  - Ongoing support for RD&D and commercialization of emerging technologies;
  - Production incentives that help achieve commercial rates of returns;
  - Clear sustainability certification criteria;
  - Foundation customers such as the Australian Defence Force that enter into offtake agreements to purchase the initial, high-cost bio-fuel supplies of SAF for example to enable production scale; and
  - Education and incentive purchase programs for final consumers of biofuels.

Consistent with the *Queensland Biofutures Roadmap and Action Plan*, ASMC supports Government’s continued provision of financial assistance to bio-fuel technology providers for R&D and commercialisation objectives. Technology pathways of particular interest to the sugar industry that would improve the prospectivity of sugar-derived bio-fuels include:

- Production of 1G and 2G ethanol, then the Alcohol-to-Jet (ATJ) pathway to make SAF and renewable diesel;
- Hydrothermal liquefaction (HTL) (dissolution of lignocellulose using supercritical water to a biocrude product);
- Gasification of lignocellulose, then Fischer Tropsch pathway to SAF and renewable diesel; and
- Anaerobic digestion to produce biomethane.

#### **ADDRESSING OTHER REGULATORY CONSTRAINTS**

While outside the budgetary processes, ASMC requests a commitment by the government to encouraging and facilitating growth and innovation through a return to regulatory and policy settings that encourage investment and capital spending in the Australian sugar manufacturing sector. In this context, the ASMC calls on Government to remove the pre-contract arbitration and Grower choice clauses introduced in the *Sugar Industry (Real Choice in Marketing) Amendment Act 2015 (Qld)*.

In the context of incentivising additional investment in co-generation and bio-fuels, the pre-contract arbitration provisions in the Federal Sugar Code of Conduct, and the *Sugar Industry Act* present risk to existing miller investment as well as potential future investments. These provisions could lead to arbitration on a grower-miller cane payment matter resulting in an expropriation of financial returns from an investment made by a miller prior to the arbitrated outcome. This is considered a disincentive to investment given the lack of certainty on what future returns could be.

## BUDGETING

MEASURE	2024-25 (\$M)	2025-26 (\$M)	2026-27 (\$M)	Total (\$M)
<b>ADDRESS SKILLS SHORTAGES AND IMPROVE WORKER ATTRACTION AND RETENTION</b>				
Improved Government forecasting and public messaging of current and likely skills deficits and a more flexible and demand responsive vocational training framework	Not costed			
Improved co-ordination of State land releases to encourage affordable housing in regional Queensland	Not costed			
<b>A SAFER AND CLEANER CANE INFRASTRUCTURE SYSTEM</b>				
An Infrastructure partnership program to improve the efficiency and public safety and environmental benefits of the Queensland cane rail network	\$2m	\$12m	\$11m	\$25m
<b>LOWER INPUT COSTS</b>				
Provide continued assistance under the Electricity Tariff Adjustment Scheme	Not costed			
<b>DE-CARBONISATION</b>				
Provide additional financial support for co-generation supply	\$2 m	\$2m	\$2m	\$6m
Financial support to identify least cost carbon abatement opportunities in sugar manufacturing	\$2m	\$3m	\$0M	\$5m
Financial assistance for bio-fuel R&D and commercialisation projects	Not costed			
<b>OTHER REGULATORY CONSTRAINTS</b>				
Regulatory and policy settings that encourage investment and capital spending	Not costed			
<b>TOTAL PACKAGE</b>	<b>\$6m</b>	<b>\$17m</b>	<b>\$13m</b>	<b>\$36m</b>

End.