



CANEGROWERS Innisfail

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17th July, 2015

Ms J Howard,
Chair,
Agricultural and Environment Committee,
Parliament House,
George Street,
BRISBANE QLD 4000

by email: aec@parliament.qld.gov.au

Dear Ms Howard,

**Re: Sugar Industry (Real Choice in Marketing) Amendment Bill 2015.
A submission by CANEGROWERS Innisfail on behalf of its members.**

CANEGROWERS Innisfail represents 80% of the growers supplying MSF Sugar's South Johnstone sugar mill, in the Innisfail area.

CANEGROWERS Innisfail supports the proposed Sugar Industry (Real Choice in Marketing) Amendment Bill 2015. Fundamentally the Bill corrects the unintended consequence that has arisen as a result of the deregulation of the sugar industry in 2006 and the subsequent changes to milling company ownership.

When deregulation was accepted by all of the sugar industry in 2005, it was on the basis that the industry owned marketing company, QSL, would remain as the preferred marketer of raw sugar for export produced in Queensland. The sugar industry agreed to the significant reforms of the industry and the situation now confronting the industry was neither foreseen nor envisaged.

There now needs to be a correction to recognise the changes that have taken place.

We acknowledge the joint submission that has been submitted by CANEGROWERS and the Australian Cane Farmers Association (ACFA). We support every aspect of that joint submission.

The joint submission extensively covers the evolution of the division of proceeds from the sale of sugar and the adopted formula used by the industry for just under 100 years. Although subject to scrutiny over that time, the "cane



INNISFAIL DISTRICT CANE GROWERS ORGANISATION LIMITED

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price formula” has proven to be robust and an acceptable method to establish the price of sugarcane as a share the proceeds from the sale of sugar. MSF Sugar is proposing under their marketing of sugar model to retain the “cane price formula”, which in itself recognises the acceptance of a proven formula.

However at the heart of the “cane price formula” is the value of the sugar obtained through the marketing, “Price of Sugar”, the remaining components of the formula relate to the “sharing” of the proceeds.

CANEGROWERS Innisfail expresses concern that with the no choice option offered by MSF Sugar, MSF Sugar proposes to have total control over the marketing and subsequently the price of sugar obtained. This will then have a direct impact on the “cane price formula” and the value of cane received by growers.

The established method of determining the share of proceeds has clearly identifies the economic interest that both millers and growers have. However it contains ambiguity and does not identify clearly the reference to Grower Economic Interest (GEI) sugar that the Bill will establish. There is no need to change the formula to “share” the proceeds, it requires a better definition of the economic interests, which the Bill will do.

With the changes in the manner in which way QSL operated since 2006, Raw Sugar Supply Agreements (RSSA’s) had to be established between milling companies, as “suppliers”, and QSL. The RSSA’s were further enhanced by the introduction of Mill Economic Interest (MEI) sugar. As a consequence of the adoption of that definition it is strongly argued that it also recognised that the remaining sugar was Grower Economic Interest (GEI) sugar, by default, but remaining silent in the RSSA’s.

Under the voluntary grower pricing options offered in recent years by QSL, MSF Sugar have chosen to refer to the sugar priced under such arrangements as “Grower Cane Pay Sugar” rather than adopting any terminology that identifies “economic interest” but clearly the sugar that individual growers have been able to price is their economic interest sugar.

Current Protection of Grower Interests in Collective Sugar Marketing Arrangements.

Under the current arrangements with industry owned marketing company, QSL, as the preferred marketer of sugar, growers can be assured that all proceeds from marketing are returned fully to the industry. Back to shareholders. No profit is retained.

The Sugar Industry Act 1999 was structured to have QSL as the marketer of sugar. This was agreed to as part of the deregulation of the industry. With QSL as the marketer growers have the confidence that the economic interests of the growers are protected.

The Costs, Benefits and Impacts.

We are unable to identify any benefits if millers are able to market all of the sugar produced at their mills.



While milling companies have espoused that they can market sugar and achieve outcomes that QSL are able to achieve, what the milling companies have not been able to guarantee is to obtain the best possible price for sugar they will be marketing.

We are concerned that there will be additional costs incurred to handle sugar through the Mourilyan Bulk Sugar Terminal. The storage shed will need to be shared with Tully Sugar (COFCO) and MSF Sugar, with the separation of the sugar from the two milling companies causing a loss of 30% of the total storage capacity.

Further, sugar must be shipped out at least three times during the crushing season as it does not have the capacity to store larger quantities that would allow more strategic shipping program. QSL is able to manage this by arranging shipping out of Mourilyan Bulk Sugar Terminal Mourilyan Bulk Sugar Terminal instead of other Bulk Sugar Terminals as part of their marketing program. That is, QSL has the ability to ship sugar out of any Bulk Sugar Terminal for shipment to any of their customers.

We are concerned that MSF Sugar will not share any premiums obtained through logistic operations. The growers currently receive a share of all premiums obtained by QSL under the Shared Pool.

The loss of the “transparency” in the values, premiums and costs savings is of concern.

Growers need to receive as much as that can be obtained for the sugarcane they produce. Whilst sugar that is marketed is directly related to the world sugar price on the ICE #11 Contract, all the other additional add-on value is vitally important for growers to receive a share of. The continuation of the investment made annually by growers into future sugarcane crops is under threat. This will have a negative impact in the communities across Queensland that the sugar industry supports.

We are concerned that if milling companies market all of the sugar produced at their mills, growers will simply become subsistence peasant farmers at the beg and call of the milling companies. Growers will have no choice but to supply to MSF Sugar and be subjected to the market control that the milling company will possess.

Whether Provisions in the Bill are Viable and Achieve Their Stated Objectives.

The unintended consequence of the changes adopted through deregulation must be attended to and the proposed Bill with the recognition of Grower Economic Interest (GEI) sugar is the cornerstone of the changes required.

The provisions of the Bill do not cause expropriation of property rights of sugar away from milling companies. It has been designed with that in mind and milling companies will continue to “hold title”.



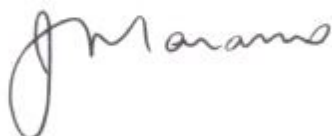
Whilst recognition of GEI sugar is the cornerstone, the need to have a pre-contract arbitration in place is critical to ensure that growers have balanced market power when negotiating supply contracts. Milling companies can simply “stone-wall” negotiations and place pressure on growers to accept the terms and conditions that the miller will demand. Growers have no power. They have already invested in crops which can be forward for 5 years. Once that commitment has been made they are powerless to stand firm on better terms and conditions they seek in Cane Supply Contracts.

MSF Sugar has expressed their objection to the arbitration process, saying that they do not agree to a third-party determining commercial decision for their company. However they are quite content following the decision of another company, Wilmar, and opting to exit QSL. MSF Sugar has stated on a number of times in media that they will return to QSL if Wilmar does. What company makes decisions based on the decision of another company? This is why growers have concerns on what impacts there will be if MSF Sugar markets all of the sugar produced at their mills.

The ability to seek arbitration in situations where the parties cannot agree will provide growers with the power to seek redress, if and when necessary. It is recognised that arbitration is the final recourse by the parties. It is recognised that there will have to be genuine negotiations as well as the need to be a mediation process. What the Bill will do is allow a commercial dispute resolution process for a commercial Cane Supply Contract.

We also recognise that the Bill is consistent with Australia’s international obligations. The Bill is a non-discriminatory amendment to the Sugar Industry Act 1999.

Yours faithfully



Joseph Marano
CHAIRMAN
CANEGROWERS INNSIFAIL



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