



TULLY CANE GROWERS LTD

Harvesting the natural energy of life

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The Chairman
Agriculture and Environment Committee
Parliament House
George Street
BRISBANE QLD 4000

Dear Sir,

Sugar Industry (Real Choice in Marketing) Amendment Bill 2015

On behalf of our Members, I wish to thank the Committee for the opportunity to make a submission on the private members bill introduced by Mr Shane Knuth MP.

It is our view and experience that the *Sugar Industry Act 1999* does not adequately protect the interests of growers. It was evident in our recent Tully negotiations for a Collective Cane Supply Contract to replace the *2008 – 2013 Collective Cane Supply Contract*, that there is an imbalance in market power between growers and the mill. In the end growers needed to supply the cane that they had grown to recoup the large amounts of money invested in the crop and signed an *Individual Contact*.

For most of our members, sugarcane is currently the only viable crop for their land, and because of the low bulk density of cane and the perishable nature once harvested, they have no real choice but to supply their cane to Tully Mill.

Cane is supplied to the mill under the terms of a cane supply contract, which historically in Tully has been a collective arrangement. The supply contract outlines the terms of delivery, payment and other associated issues.

The harvest season in Tully is largely determined by the weather, generally commencing in the middle of June, if the rain allows, with the objective of a mid-November finish, prior to storms before the wet season. History has proven that growers face large losses in the current and next year's crops, when seasons are extended beyond mid-November.

Since the harvest and crushing season is limited, the cane supply contract also determines how growers and groups of growers share the mill crushing capacity available during the season.

The amount that the mill pays for cane and the timing of payments is determined in the cane supply contract. Currently in Tully as in most mill areas cane payment is determined from a sugar price, the Commercial Cane Sugar (CCS), sales of some by-products and some quality matters. The cane price formula and the method of determining CCS have evolved over time and largely remained unchanged since de-regulation of the industry. The sugar marketing

system ultimately determines the sugar price used in the cane price formula, and in Tully this is managed currently by industry owned not for profit company QSL.

Prior to the acquisition of Tully Sugar Limited by Chinese State owned company COFCO in 2011, Tully Sugar expressed no desire to alter marketing arrangements. COFCO is a large multi-national commodity trader, and is involved in sugar trading through a subsidiary company China Food Trading.

Tully Sugar gave notice of its withdrawal from QSL marketing arrangements from the end of the 2016 season, and has advised growers that after this all sugar produced at Tully Mill will be marketed through a system determined by Tully Sugar.

If Tully Sugar insists that the marketing arrangement of their choice are a condition of a cane supply contract for 2017 and beyond, growers' choice will be to accept the contract or not supply cane.

The current Sugar Industry Act does not require Grower Economic Interest (GEI) in sugar to be a part of a cane supply contract, and does not provide for a dispute resolution process to resolve deadlocks during contract negotiations. As such, we do not believe that the current legislation supports the principal objective of the Act, which is to facilitate an internationally competitive, export orientated sugar industry based on sustainable production that benefits those involved in the industry and the wider community.

The current imbalance in market power between grower and miller and dominance of multi-national milling companies who have the capacity and appetite to market sugar, are in our view not compatible with the objects of the Act in its current form.

We recognise that there will be benefits to our members from competition associated with the marketing of raw sugar and welcome a situation where growers have the choice to market all or part of the sugar in which they have an economic interest, either through QSL or Tully Sugar Limited.

Real choice would solve the issues of transparency and promote innovation through competition which is fundamental to the objects of the Sugar Industry Act.

We support the Australian Cane Farmers Association (ACFA) and CANEGROWERS 'Pathways to Market' recommendation which outlines what is required to facilitate the real choice, and believe that these concepts will require the support of amendments to the current Sugar Industry Act.

The experience of Tully CANEGROWERS and its members in contract negotiations for a cane supply contract to replace the *2008 – 2013 Collective Cane Supply Contract* highlights why we see that a robust dispute resolution process to deal with deadlocks in contract negotiations must be included in the Act.

Without these pro competition amendments to the *Sugar Industry Act 1999*, we do not believe that growers can negotiate an outcome that gives them a real choice of who markets their GEI sugar.

During the acquisition of Tully Sugar Limited by COFCO, Tully canegrowers sort and obtained certain undertakings from COFCO about the use of CANEGROWERS dispute

resolution. In 2012 Tully CANEGROWERS as bargaining agent for its members, commenced negotiations for a cane supply contract to replace the 6 year Collective Cane Supply Contract which was expiring at the end of the 2013 Season. Early in negotiations, canegrowers identified that uncertainties about future ownership of the mill and future crushing capacity were making negotiations difficult.

Consequently, an agreement (Attachment 1) was made to deal with any possible deadlock in the negotiations, as well as commit to other COFCO promises. This agreement was endorsed by the Board of Tully CANEGROWERS and Tully Sugar Limited and signed by the respective Manager and CEO.

By the end of 2013 a number of significant issues in the contract remained unresolved and Tully CANEGROWERS attempted to invoke the provisions of this agreement to resolve these issues. Tully Sugar Limited refused to honour its agreement (Attachment 2) and as a consequence no Collective Cane Supply Contract was made. Tully growers were left to sign an Individual Cane Supply Contract.

This demonstrates that there is a clear imbalance in the market power between growers and the mill that they supply. Generally, growers have no choice of which mill they supply because of the perishable nature and the bulk density of cane once it is harvested.


Tully CANEGROWERS request for formalisation of GEI sugar in the cane supply contract was not accepted by Tully Sugar Limited during these negotiations despite having passed on to growers marketing costs associated with the 2010 crop short fall. In our view the action of Tully Sugar Limited in 2010 acknowledged that growers' economic interest in raw sugar does not stop with the delivery of cane to the sugar mill, however Tully Sugar refused to recognise this in the cane supply contract.

The acquisition of Tully Sugar Limited by multi-national COFCO, has provided the mill with access to the sugar trading resources of the parent company, and alternative marketing options to those developed by the industry over the last 100 years.

Like other mills, Tully Sugar is currently able to market the MEI sugar produced and did so for the 2014 sugar production. It is imperative that growers who have the major investment in the sugar industry are also able to exercise their right to determine marketing arrangements for the GEI sugar. It is the value of this sugar that directly determines the value of cane.

We support the submission made by CANEGROWERS and ACFA which contains more detail.

Yours faithfully



TF Harney
CHAIRMAN

Attachments:

Attachment 1- *Tully Sugar Limited and CANEGROWERS signed Agreement*

Attachment 2- *Response from Tully Sugar Limited regarding the dispute resolution process*