

Our Ref: 02965-2016

Mr Paul Lindwall and Mr Ken Baxter c/- Regulation of Australian Agriculture Productivity Commission Locked Bag 2 Collins Street East Post Office MELBOURNE VIC 8003

Dear Messrs' Lindwall and Baxter

Draft Report on the Regulation of Australian Agriculture

Thank you for the opportunity to make a submission on the Productivity Commission's (PC) Draft Report on the Regulation of Australian Agriculture.

The Queensland Government welcomes the Inquiry, and is supportive of measures to reduce the regulatory burden on Australian farm businesses and associated supply chains.

There are around 30,500 businesses that carry out agricultural activity in Queensland. Agriculture directly accounts for over \$7 billion of the Queensland economy, while the gross value of agricultural production (which includes inputs from other industries) is estimated to be \$13.7 billion.

The Queensland Government notes that the PC's Draft Report provides a comprehensive assessment of regulations that impose an unnecessary burden on farm businesses and, where regulations are underpinned by legitimate policy goals, whether those objectives can be met in a more efficient manner.

In this context, the Queensland Government wishes to make particular comment on two of the PC's draft recommendations.

Sugar Marketing

Draft recommendation 11.2 states that:

The Queensland Government should repeal the amendments made by the Sugar Industry (Real Choice in Marketing) Amendment Act 2015.

The Sugar Industry (Real Choice in Marketing) Amendment Act 2015 (the amendments) now allows for: (a) cane growers to decide who sells and prices the proportion of the raw sugar manufactured by millers for which growers have a nominal price exposure; and (b) a new pre-contract arbitration process.

The Queensland Government would like to again emphasise that the legislation, which was introduced by Katter's Australian Party, was passed by the Queensland Legislative Assembly on 2 December 2015 without the support of the Queensland Government.

The Queensland Government has raised significant concerns in relation to the amendments. The potential negative impacts on output, costs, investment and employment present a serious risk to the long-term economic viability of the sugar industry. The Queensland sugar industry is vital to the Queensland economy, supporting 16,000 jobs and generating \$2 billion each year in earnings.

The Queensland Government is also concerned that the amendments signal a return to a highly regulated industry structure, which cuts against the basis of thirty years of micro economic reforms in Australia.

The PC's Draft Report notes that the amendments are likely to restrict competition and deter investment in milling capacity and innovative marketing. Reduced or degraded milling capacity is likely to reduce the productivity of the industry, as well as incentives for structural adjustment in sugarcane growing. There will also be less competition if existing sugar millers decide to leave the industry.

These findings are consistent with the independent Queensland Productivity Commission's (QPC) regulatory impact assessment of the legislation, released on 26 November 2016. The QPC's detailed analysis found that the amendments:

- interfere with the property rights of millers;
- could reduce the overall returns to the sugar industry;
- could reduce the returns to industry by adding extra costs;
- would re-introduce pre-contract arbitration, which may lead to both financial and time loss costs for industry; and
- could leave parties exposed to action by the Australian Competition and Consumer Commission, if the Australian Government does not accept that there is a net benefit from the authorisation of anti-competitive conduct included in the legislation.

As a result, the QPC concluded that:

- there is no evidence to support a case for market failure in the Queensland sugar industry that would indicate the need for additional Government intervention; and
- the benefits of additional regulation, as proposed by the amendments, do not outweigh the costs.

Given the significant and wide-ranging impacts of the amendments for the Queensland sugar industry and the economy more broadly, the Queensland Government raised its concerns with the Australian Government both before and after the passing of the legislation. In particular, given conduct authorised under the Act potentially breaches various sections of the *Competition and Consumer Act 2010* (CCA), the Queensland Government requested that the Australian Government refer the matter to the National Competition Council for investigation.

Biofuel Mandate

Draft recommendation 8.6 states that:

Arrangements to support the biofuel industry — including excise arrangements and ethanol mandates — deliver negligible environmental benefits and impose unnecessary costs on farmers and the community. The Australian, New South Wales and Queensland Governments should remove these arrangements by the end of 2018.

The Queensland Government does not accept the PC's draft recommendation that the Queensland biofuel mandate should be removed.

The Queensland Government considers that the PC's Draft Report makes a number of inaccurate assertions about the Queensland biofuel mandate. Contrary to the assertions made, there is limited evidence that the mandate will drive up the cost of fuel or stock feed. However, there is strong evidence that the mandate will deliver environmental benefits, particularly in reducing greenhouse gas emissions from vehicles, and will bring to market biofuels which must meet strict national fuel quality standards.

Queensland's biofuel mandate is designed to provide certainty to the biofuels sector to encourage investment, innovation and growth, and lead to more jobs. It will also help create the foundation for a new high-value, knowledge-based biofutures industry in Queensland. In particular, the mandate is intended to stimulate investment in regional industry, including in the agricultural sector.

The emergence of a biofuels and bio-manufacturing industry, underpinned by the biofuels mandate, has the potential to deliver \$1.8 billion for Queensland's economy and over 6,600 full-time jobs between now and 2035, according to a 2014 report by Deloitte Access Economics and the Queensland University of Technology. Achieving this, however, will require substantial Government support.

The Government's biofuels mandate, to be introduced from 1 January 2017, will ensure appropriate supply of ethanol-petrol blends including E10, and biodiesel in the market. At the same time, Government investment in a prominent consumer awareness campaign about the benefits of clean, affordable and locally-produced fuels that support Queensland agriculture will encourage consumer demand.

The PC's draft report does not articulate how the development of a biofuels industry and widespread consumer uptake would occur without the presence of a mandate, given Queensland's supply of, and demand for, biofuels has remained relatively static for the last several years.

If your office requires any further information, please contact Mr Greg Tonks, Assistant Under Treasurer, Queensland Treasury

Yours sincerely

HON. CURTIS PITT MP

Treasurer Minister for Aboriginal and Torres Strait Islander Partnerships Minister for Sport

Level 9 Executive Building 100 George Street, Brisbane

GPO Box 611, Brisbane Queensland 4001 Australia

Telephone +617 3719 7200

HON. LEANNE DONALDSON MP

Minister for Agriculture and Fisheries

Level 8 Primary Industries Building 80 Ann Street, Brisbane GPO Box 46, Brisbane Queensland 4001 Australia Telephone +617 3719 7560