**Comments re the Productivity Commission Draft Report**

Tully Sugar Limited welcomes the opportunity to provide some brief feedback in relation to the Productivity Commission's draft report into Regulation of Australian Agriculture.

Tully Sugar Limited owns and operates the Tully Sugar Limited mill, crushing up to 3 million tonnes of sugarcane supplied by more than 220 growers, employing 339 people in Far North Queensland.

Tully Sugar Limited is ultimately owned by the COFCO Corporation, a Chinese state owned enterprise that acquired the Company in July 2011.

There are a number of areas of the Productivity Commission's draft report into Regulation of Australian Agriculture that are pertinent to the business and regulatory environment in which Tully Sugar Limited operates

In this regard, Tully Sugar Limited endorses the comments provided by the Australian Sugar Milling Council in their original submission from February this year, and the subsequent submission provided in relation to the draft report.

Tully Sugar Limited would like to make the following specific comments regarding the Queensland Sugar Industry Act as amended 2015

- Tully Sugar Limited developed a draft cane supply agreement for the supply of sugar cane for the 2017 season and beyond, and had commenced negotiations with the Tully Cane Growers Association in November 2015.
- This draft agreement addressed the issues that growers had identified as being of concern to them, including:
    - Future security for the industry in Tully, to ensure that all stakeholders in the industry would remain viable after 2016 when the contractual arrangements with Queensland Sugar Limited ended
    - Continuing grower access to the ICE#11 global sugar market to enable them to fix the price that they receive for their sugar cane, independently of the Mill, thereby retaining direct control over up to 99% of their income from sugar cane.
    - Ensuring that as far as possible the industry business model in Tully would be preserved into the future, unless both parties agreed otherwise.
- Before these negotiations could progress, the legislation was passed in December 2015, amending the Queensland Sugar Industry Act. This legislation has changed the rules under which sugar milling businesses operate in Queensland, moving away from the deregulated industry, and moving to a regulated framework that we believe could result in a more confrontational and less collaborative business environment between growers and mills
- Negotiations for a 2017 season cane supply agreement were therefore deferred so that the implications and application of the Act could be considered, and revised agreements drafted that attempted to accommodate the complexities of the legislation.

- The legislation has therefore created greater uncertainty for Tully growers by delaying the negotiation process, when the Act was supposedly meant to do the opposite.
- Responding to the requirements of the Act has to date resulted in substantial cost the business, including in excess of $170,000 in direct, externally-sourced legal and professional advice as well as significant internal management and support staff input that has been a diversion of those resources from the operation of the core business of sugar milling.
- Although progress has been made, new commercial arrangements have yet to be finalised with Tully Cane Growers. However, some key issues arising from aspects of the Legislation remain unresolved.
- Whilst our approach has been to work with our growers to find a short term way forward despite the legislation, and we fully support the Queensland Parliament redressing this retrograde step of costly regulation that puts the entire industry in a worse position.
- Our objective is to continue to grow the Tully Sugar Limited business, considering potential diversification opportunities, but ensuring the milling business remains a key local employer and cornerstone of the Tully community