CANEGROWERS

100 Edward Street (GPO Box 1032)
BRISBANE QLD 4001
T: 07 3864 6444 F: 07 3864 6429
enquiry@canegrowers.com.au
www.canegrowers.com.au

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Regulation of Australian Agriculture
Productivity Commission
Locked Bag 2, Collins Street
MELBOURNE VIC 8003

By email: *agriculture@pc.gov.au*

Dear Review Commissioner

CANEGROWERS welcomes the Productivity Commissions inquiry into the Regulation of Agriculture.

As the largest representative body for the near 4000 cane growers in Queensland CANEGROWERS is striving for a regulatory environment which allows a globally competitive position for the existing Australian sugar industry and a attractive evironment for potential future developments or expansion.

Unlike nearly all of our internaitonal competitors, the Federal Government does not provide price or income support to our agricultural industries. In this context, a robust, equitable and transparent regulatory framework supported by sound legislative structure is essential to ensuring the international competitiveness of our largely export-oriented agricultural sector. We do not seek pricing or market intervention of Governmet. But the reality is our competitors receive such support so we need to ensure that as much as possible Government negative intervetion in our businesses is minimal and Government focuses on assisting the industry to build producitvity and profitability. The growth, development and vibrancy of Australia's rural and regional communities depend on the success of many of or agircultural and primbary produciton industries.

Like many other agricultural industries, Australia's sugar industry faces several challenges in its operating environment. Regulations may play a positive role in many of these for instance. There are also potentially policy and underpinning legisltion which is poorly implemented leading to perverse outcomes. We find this to be the case in such instances that the transiiton to the nationally consistent Heavy Vehicle National Laws.

As a proud member of the National Farmers Federation (NFF) and the Qld Farmers Federation CANEGROWERS supports and endorses the issues and concerns raised by both the NFF and QFF in there submissions to the enquiry.

CANEGROWERS is available to expand on any of the issues raised in this submission. If you have any further questions, do not hesitate to contact our office (07) 3864 6444.

Yours faithfully

Dan Galligan
Chief Executive Officer

Submission to the Productivity Commission inquiry into the regulatory burden on farm businesses - February 2016

The priority issues for CANEGROWERS

- To have easy to understand environmental regulations which allow a farmer to operate without fear of unknowingly contravening the rules. Current regulations are complex and in a number of cases conflicting pieces of Federal, State and Local government environmental legislation.
- To have reef regulations, based on sound science, which do not compromise productivity or require onerous and duplicated reporting.
- To have the clear transport regulations applicable to agriculture and in particular to the cane growing regions where unrealistic one size fits all regulations are in place with road managers and regulators being risk averse and transferring risk to growers.
- To have regulations which provide sufficient bargaining power to be able to negotiate on even terms with sugar milling companies.
- To have the regulated method of calculating electricity prices changed to halt and reverse the unprecedented price increases to irrigated farmers and the unprecedented windfall gain for the network distribution owners (Queensland Government).

1. Introduction

CANEGROWERS welcome the opportunity to make a submission. We understand that this inquiry was initiated in response to the Federal Government's *Agricultural Competitiveness White Paper (Agricultural White Paper)* and the *Developing Northern Australia White Paper (Northern Australia White Paper)*. CANEGROWERS made submissions to both these inquiries.
CANEGROWERS represents 80% of the cane growers in Australia. The sugar industry is a $2 billion industry producing over 32 million tonnes cane and 4.5 million tonnes of sugar of which over 80% is exported.

The 4,000 cane growing businesses are generally small scale family owned farms with an average farm size of 100ha and there are 8 sugar mill owners which are generally corporate entities with 70% of the capacity foreign owned. Sugar mills have been strategically located to have a cane supply within an economic distance. Thus there is little opportunity for growers to supply a competing mill or for a mill to complete for cane supply from another mill.

The future for Australian agriculture is positive as seen in the National Food Plan and the recent Agricultural Competitiveness White Paper and industry reports such as the Blueprint for Australian Agriculture. Sugarcane has the potential to be the backbone of agribusiness development in North Australia with significant tracts of suitable land seen in the Queensland Agricultural Land Audit (QALA).

Australia will be competing in the world market for investors to realise this potential. The regulatory environment has the capacity to either attract investors by creating stability and sustainability or deter investors due to the high cost and complexity of entry and ongoing compliance compared to alternative investments.

2. Land tenure and use

Land use planning

Approaches to land use planning must change if state and local governments want to create an environment conducive to growth. Governments must acknowledge that there are limited opportunities for agricultural developments primarily due to soil quality and water storage capacity.

Land identified as suitable for agricultural development by scientific soil suitability information (such as the QALA) should be protected for future agricultural development.

There are State based Acts (*Regional Planning Interests Act 2014* in Qld) which provide the framework for the location and regulation of land use including specification of land use zoning that indicates where particular activities may occur according to regional strategies or policies. An additional layer of development approval may apply through locally based (Council / Shire) planning and consent instruments.

There is a need to support the existing areas of cane land which are affected. The following is an example from one the CANEGROWERS district offices

In terms of gross value added, employment and business numbers, the Hinkler and Flynn electorates have a much greater reliance on agriculture (+/- 13%) than Queensland as a whole. (+/- 3.4%).

This reliance on agribusiness means that any negative impact on our farmers' ability to generate and market the crops and products that they produce has a much greater impact on our community than in other areas.

We have instances where significant areas of land are becoming unsuitable for farming because of urban encroachment and other land use issues. Growers are continually being harassed for burning, not burning (trash), dust, chemical complaints, harvester noise etc.

In most cases this is from neighbours that have moved to the area to enjoy the rural lifestyle.

Bundaberg CANEGROWERS seeks to have farmers' 'right to farm' protected by legislation. The 'right to farm' relates to a cane farmer's free ability to carry out routine agricultural activities without undue objection, harassment or complaint from neighbours or others.

Suggestions for regionally-specific land use responses.

- *Well defined and enforced urban footprint for all cities and towns in the region*
- *Strong regulatory provisions limiting urban development to the urban footprint*
- *Minimum subdivision sizes in rural areas based on the needs for sustainable agricultural enterprises*
- *Support for infrastructure for transport of agricultural products to processing areas and markets*
- *Improved mapping of Important Agricultural Areas and Agricultural Class A and Class B land*
- *Protect agricultural land and infrastructure from fragmentation and incompatible land uses.*
- *Encourage diversification in the rural economy but avoid the expansion of uses that are incompatible with agricultural production.*

3. Environmental Protection

(a) Environmental Protection and Biodiversity Conservation Act (EPBC)

CANEGROWERS concur with the NFF submission which reflects the complexity and duplication of the EPBC.

(b) Reef Programme and Reef Trust

Sugarcane's proximity to the Great Barrier Reef continues to pressure growers and industry on their social licence to operate. CANEGROWERS continues to participate in the Federal Reef programs including Reef Programme through Reef Plan and Reef Trust through Reef 2050 Long Term Sustainability Plan relating to water quality improvement and the resilience of the Great Barrier Reef.

These are incentive based programs to create improved farming practices and are delivering real outcomes for both growers and the environment. The 2014 Reef Report Card shows that the sugarcane industry has improved practices, and is reducing nitrogen, pesticides and sediment run off. These or similar programs must be continued with greater emphasis and direction given to industry delivery and focus on productivity and profitability as well as water quality outcomes to maintain engagement of growers.

(c) Reef Regulation and Smartcane BMP

The Australian sugarcane industry has developed Smartcane BMP, a world-class best management practice system for sugarcane growing. The Smartcane BMP drives productivity, profitability and environmental stewardship. Successful self-regulatory systems like this need to be encourage and recognised in the State based Reef Regulations to reduce the reporting and record keep requirements. The label requirement set by APVMA for chemical use and the conditions of chemical use as directed by the Reef Regulations clearly create a duplication which creates confusion around record keeping for growers.

Reef regulation must be based on sound science. For example, current regulations have taken a nutrient "guideline" and established regulatory maximum nitrogen and phosphorus levels. This has the potential to jeopardise yield. A further concern is that in order to meet the Reef 2050 Long Term Sustainability Plan targets of 80% DIN reduction to the Great Barrier Reef Regulations may be used to reduce Nitrogen levels well below that required for optimum production levels. A Regulation based on meeting an aspirational target can affect the whole value chain.

Actions

- Review the option of divesting overlapping areas of environmental protection and biodiversity conservation of the Federal EPBC Act 1999 to state jurisdictions.

- Ensure that there is no duplication of requirement for Reef Regulations.

(d) Vegetation Management

Native vegetation (and other environment) controls can impose a significant financial and regulatory roadblock for future agricultural development. The current Queensland state legislation is aimed at protecting native vegetation restricts clearing activities by geographical area (bioregion) and by plant species. Offset requirements are also onerous if the clearing involves endangered or of-concern regional ecosystem or threatened plant species. This has the ability to impede potential cane industry expansion in Northern Australia.

The regulatory burden associated with clearing sufficient remnant vegetation to support a sugarcane mill and a critical mass of sugarcane area (up to 30,000ha) is cost prohibitive (particularly if offsets are required). The regulatory process is very complex, involving separate pieces of legislation and differing state government departments. There are also different approaches to native vegetation protection across the Queensland, Northern Territory and West Australian governments.

To foster an environment conducive for expansion of the sugarcane industry in Northern Australia, vegetation clearing rules must change. A set of new vegetation clearing laws would need to be harmonised across jurisdictions and must not hinder or unduly restrict the development of new agricultural cropping lands and associated infrastructure. Put simply, the output of Australia's agricultural industries in Northern Australia cannot dramatically increase without a corresponding increase in the area of land under production.

4. Access to technologies and chemicals

(a) GM Regulations

GM regulation must be consistence with countries importing Australian sugar to reduce regulation costs which have the potential to make the release of GM sugarcane varieties unviable. It is estimated that the full international cost of regulation for the sugar industry for the release of the first GM sugarcane variety would be 10 times the cost of regulation in Australia alone. It would make sense to coordinate the regulatory requirements with as many of the countries to which sugar is exported to ensure that the Australian regulations are acceptable and the same process does not have to be repeated.

(b) Access to chemicals

Australian Pesticides and Veterinary Medicines Authority (APVMA) is the federal body responsible for regulating chemicals used in the agricultural sector. Under the arrangements agreed to by all of the States in 1991, the Commonwealth is responsible for the registration of agricultural and veterinary chemicals up to the point of retail sale, with states and territories responsible for control of use.

Over time, APVMA has been responsible for a range of ag-vet chemical decisions that have impacted on the Australian sugarcane industry – the most recent example is control of the chemical Diuron. APVMA's review and decision on the use of Diuron has led to complexity in the label requirements, use patterns and has resulted in a change of the herbicides mix used in the cane industry. The underlying issue is whether these alternative herbicides have created a perverse outcome to water quality from alternate products or change in practices that may result in other impacts to water quality.

The availability and access of effective, safe and cost efficient chemicals, particularly residual herbicides are extremely important for Queensland cane growing businesses. Until the advent of green cane trash blanket harvesting systems, virtually all cultivation for weed control on cane lands was by mechanical means. Herbicides such as Diuron, and tank mixes using other herbicides such as paraquat dichloride (Gramoxone®) and 2,4-Dichlorophenoxyacetic acid (2,4-D) are used to manage grasses, broadleaf weed and vines across the industry in conjunction with sugarcane best management practices. The cost to sugarcane production where these weeds are not controlled is estimated at up to $100 per hectare per week and uncontrolled nutgrass (Cyperus rotundus) alone can cause yield losses of up to 30%.

As the Queensland sugarcane industry is adjacent to the Great Barrier Reef, there is concern that off-site movement of herbicides from run-off during rain events and the wet season can adversely impact water quality and therefore the resilience and health of the Great Barrier Reef ecosystem. This has led to significant environmental and political pressure to have the products reviewed and banned. There is the challenging problem of limited new products being registered due to the costs involved in registering products in Australia and the small market these products are targeted at.

CANEGROWERS are supportive of the APVMA's ability to review registrations when concerns have been raised about the use or safety of a particular chemical or product. CANEGROWERS is concerned about the availability of new chemicals or getting improved access to chemicals. A reliance on

"knockdown" products is not practical, given the wet season, timing of application, access to paddocks and the strong possibility of developing weed resistance.

There are significant concerns if residual herbicides are no longer available or limited in their use, farmers would revert to mechanical cultivation which would see increases in soil loss and run-off and result in declining soil health and water quality.

CANEGROWERS understands the Department of Agriculture and Water Resources is working closely with the APVMA, grower groups, rural research and development corporations and the chemical industry to improve farmers' access to safe and effective agricultural and veterinary chemicals.

The project to examine current APVMA permits to determine suitable candidates for migration from permit to product label (registration) is supported by CANEGROWERS.

The APVMA has also commenced a project to develop a risk assessment framework for determining the appropriate regulatory effort to be used in assessing applications for product registration or active approval.

The aim is to identify and implement practical improvements and incorporate more efficient processes in the way the APVMA manages applications. CANEGROWERS supports this approach.

Government is implementing measures to reduce red-tape and improve efficiencies on chemical reviews and registration opportunities for new chemicals. CANEGROWERS supports this approach and believes this may reduce the indirect regulatory burden on growers to access safe and effective chemicals.

5. Water

Imposition of National Competition Policy (NCP) competitive neutrality principles on water utilities without introducing structures that increase productivity will increase costs and prices. The Federal Government working with the States should review the application of NCP and importantly, the way in which it is implemented.

The local management of irrigation schemes is a step in the right direction to control the necessary cost spiral. This process has been too slow.

6. Transport

The change to the Heavy Vehicle National Law (HVNL) and the National Heavy Vehicle Regulator (NHVR) has led to an unworkable situation for Queensland's cane growers. The permitting system seconded by NHVR to Queensland Transport and Main Roads (QTMR) is not functioning effectively and the time taken to process permits is unacceptable. Added to this, the conditions applied compared to the permits issued prior to NHVR taking over, are far more stringent.

CANEGROWERS has not seen any evidence that there is a safety trend or history of incidents to justify this outcome.

There have been some attempts to provide trial gazetted notices but these have again been far more stringent than previous permits. Cane growers technically cannot even cross a council road with a class 1 agricultural vehicle over 3.5m width without a notice or permit. This severely limits our normal farming operations and discourages compliance and safe work practices.

It would appear that road managers and regulators risk averse to the point that it is left up to the industry to close down or take the risk of travel. The conditions required are based on long haul freight requirements and one size does not fit all. In the sugar cane areas, the needs are different.

As an example it has been estimated by CANEGROWERS that the sheer number of over 3.5m width agricultural vehicles would, without sensible notices or regulation in place require permits for 4,500 vehicles making 54,000 trips. The cost to growers of obtaining permits, complying with more stringent conditions and suffering a delay of one week in just the weed control operations would be in excess of $18 million per annum.

Agriculture must be treated separately and local conditions taken into account and workable regulations applied.

Specifically, more work is still to be done on several transport issues:

- Review the mass and dimension movement restrictions and use of permits for agricultural vehicles, particularly in non-urban areas.

- Develop a mechanism for trade plates to be used for agricultural vehicles, as in Western Australia. This will significantly reduce the cost of registration to primary producers.

- Allow the use of High Flotation Tyres (HFTs) on all agricultural vehicles, to the maximum engineering specification (20 t gross mass).

- Allow "trucks" that are used for an agricultural purpose to be regulated as "purpose built vehicles". Currently all "trucks" are regulated in the same way as heavy vehicles, assuming all trucks engage in road freight/transport activities.

7. Biosecurity

Continued effort in biosecurity is important for the productivity and profitability of the Australian sugar industry. Stopping the entry, establishment and spread of exotic diseases and pests is vital for our industry's future. If unchecked, yield losses would be high and devastating to industry productivity and profitability.

The Queensland Biosecurity Act 2014 (the Act) was passed by Parliament and will come into effect on 1 July 2016. The regulations underpinning the act are currently being drafted.

The Australian Government is currently consulting on the development of legislation under the Biosecurity Act 2015. Draft regulations, declarations and determinations are being developed as part of the implementation program over the course of 2015 and 2016 and CANEGROWERS through NFF and Plant Health Australia have provided feedback to the process.

CANEGROWES are satisfied with the level of regulations and industry developed codes of conduct for the internal biosecurity issues in the sugar cane industry.

8. Competition regulation

(a) Trade and market access

As industry 100% exposes to a world market we are competing against countries who are have their production systems financially subsidised by their domestic Governments. It is not an even playing field on the international market. As more than 80% of Australian sugar is exported, CANEGROWERS actively supports the Australian government's efforts to have sugar fully included in all trade agreements (bilateral, regional and multilateral) to secure a world in which the trade in sugar flows freely. In all trade negotiations CANEGROWERS has joined the industry in calling for commercially-worthwhile new market access opportunities for sugar in the immediate term, with annual increases until open access is achieved and is working closely with government to secure this outcome.

Sugar must be included as an important item in all of Australia's trade agreements. All trade agreements should be comprehensive with no exclusions.

(b) Balancing the Bargaining Strengths

In each of the sugarcane producing regions, the local cane growing community must deal commercially with a highly concentrated raw sugar miller. In most regions, a single company owns all mills in the district; there is no feasible alternative market for cane; and there are few if any worthwhile alternatives to sugarcane production within the farming system. With one exception, the mill owner is either a large multinational or linked to a large multinational in which Australian sugar accounts for a small part of their total business activities. There is a clear imbalance in economic strength favouring the milling company.

This imbalance, characteristic of sugar industries around the world and recognised by governments in all sugar producing counties, has resulted in a targeted set of regulations providing a fall back process behind the commercial relationship between millers and growers.

The imbalance was first recognised in Australia in the early years of the 20th century, when in the absence of effective competition laws, the federal government appointed a Royal Commission to review the sugar industry. In its report the Royal Commission expressed concern about the imbalance in market power in the industry and mills' ability to "squeeze the primary producer". In light of this finding a single channel marketing system was introduced that ensured the risks and rewards flowing from the marketing of raw sugar were shared. The regulations also enabled cane growers to come together to bargain collectively with mills to negotiate the terms and conditions for the supply of cane to the mill.

The introduction of competition in the provision of marketing and pricing services as provided for *Queensland's Sugar Industry (Real Choice in Marketing) Act 2015* will provide the discipline on businesses to continually strive to improve their performance, lift productivity growth and lower costs. Competition in the provision of marketing services will stimulate investment, economic growth and employment opportunities across the industry.

Unconscionable Conduct

The unconscionable conduct provisions of the CCA have not been a helpful source of protection to producers in the agricultural sector and supports their proposed reforms to provide transparency in the supply chain. This includes recognition that certain classes of suppliers such as sugarcane producers are predisposed to suffering from a special disadvantage because of their production of sugarcane, a perishable good, and exposure to a regional monopoly buyer of that product.

Misuse of Market Power

When considering the misuse of market power, the legal framework must effectively:

- level the balance of market power in negotiations for the intermediate product (in the case of the sugar industry sugarcane) between contracting parties, primary producers and the regional monopoly mill they supply;

- ensure transparency in the transmission of market prices along the supply chain and does not allow for final market risks to be borne by the primary producer when the market rewards are captured by the processor of the primary product; and

- provide transparency of contract processes to allow for compliance and enforcement "audits" to ensure there has been no misuse of market power.

CANEGROWERS supports that an "effects test" into section 46 that shifts the onus of consideration from what a company's purpose in undertaking any conduct was to what effect that conduct has had on any given marketplace.

A process that gave the ACCC greater power to regulate anti-competitive behaviour and impose penalties where anti-competitive behaviour has been found would shift the decisions framework from the judicial system to a regulatory system, making it more accessible to small producers facing large multinational adversaries.

On 15 May 2014, CANEGROWERS and the Australian Cane Farmers Association wrote to the Chairman of the Australian Competition and Consumer Commission (ACCC) outlining concerns about Australian sugar mills misuse of their market power in contravention of section 46 of the Competition and Consumer Act 2010 (Cth). At the time several Australian sugar mills were combining the services of crushing sugarcane with the provision of raw sugar marketing services were taking advantage of their regional milling monopoly power to eliminate or substantially damage a competitor (in this case Qld Sugar Limited).

In the short term, this exercise of their monopoly market powers was designed to substantially damage or eliminate QSL as a competitor. In the longer term it was designed to prevent the entry of new suppliers, and with it, will prevent the development of a market of these services. We also expressed concern that Wilmar's proposed marketing structure is an arrangement that would be in contravention of Section 47 of the CCA which prohibits exclusive dealing.

Although we are yet to receive a response from the ACCC, on 25 February 2015, the Chairman of the Australian Competition and Consumer Commission (ACCC) responded to a question from the Senate Economics Legislation Committee (Estimates) in relation to Section 46 of the Australian Competition and Consumer Act (CCA) 2010.

In those Senate Estimates hearings, Senator Dastyari expressed a concern of many small businesses that the current system does not enable them to easily address anticompetitive behaviour of larger businesses.

In his response to a question from Senator Dastyari, Mr Sims identified deficiencies in the CCA saying in relation to Section 46 in part:

> "*… the provision is a competition provision. It only kicks in if you are misusing your market power to damage one of your competitors. If you are just doing something nasty to someone downstream or upstream, it is not a misuse of market power*" (Hansard, p139).

In their final report, Competition Policy Review (31 March 2015), the Harper Committee also found Section 46 of the CCA is "deficient in its current form". The Committee reports:

> "*It does not usefully distinguish pro-competitive from anti-competitive conduct. Its sole focus on 'purpose' is misdirected as a matter of policy and out of step with international approaches.*
>
> *Section 46 should instead prohibit conduct by firms with substantial market power that has the purpose, effect or likely effect of substantially lessening competition, consistent with other prohibitions in the competition law. It should direct the court to weigh the pro-competitive and anti-competitive impact of the conduct*" (Harper Review, p9).

The ACCC Chairman's response to questions raised during the Senate Estimate hearings and the conclusions drawn by the Harper Review make it clear that as presently cast the provisions of

Section 46 do not adequately deal with cases where there are significant imbalances in market power between different segments of a supply chain as occurs between sugarcane growers and the mill they supply and where the use of that market power has the likely effect of substantially lessening competition.

It is clear that Section 46 of the CCA does not effectively deal with monopsonistic situations such as those confronting sugarcane growers where mills' actions have "*the purpose, effect or likely effect of substantially lessening competition in that or any other market*" (Harper Review, p23). A bona fide role for government is to restore balance in the market for sugarcane and to establish a regulatory structure that prevents the misuse of market power, addresses market failure, and ensures cane growers are not disadvantaged by the mills they supply.

The Senate Standing Committee on Rural and Regional Affairs and Transport and the Federal Government's federal Government's Sugar Marketing Taskforce both found there was a role for government in resolving the raw sugar marketing issue. Reflecting a role for government the Queensland Parliament has remedied the situation by passing the *Sugar Industry (Real Choice in Marketing) Act 2015 (Qld)*. Effective regulatory powers in the CCA that addresses the anticompetitive behaviour of larger businesses over smaller businesses in the supply chain may have prevented the need for an industry specific legislative outcome.

Collective Bargaining

Collective bargaining is used widely in the sugar industry to negotiate the terms of cane supply and related agreements. Authority for sugarcane growers for collective bargaining groups is contained in the Queensland government's *Sugar Industry Act*. This act stipulates that there will be four separate regions within which there may be collective bargaining. However, with recent changes in ownership of Queensland sugar mills, three of the seven sugar milling companies in Queensland operate across more than one of these regions and, obviously, have the benefit of full transparency of negotiations with their growers. However, suppliers to these three companies in one region cannot negotiate collectively with suppliers in other regions. This imbalance can be corrected by defining Queensland as a single region for the purposes of collective bargaining.

Aimed at preventing the lessening of competition, the CCA restricts the use of either collective bargaining or collective boycott. The Act does allow for exceptions, such as those authorised by the Queensland government. Although this has been effective, the alternative mechanism through TPA/ACCC authorisation/notification approvals is costly and limited and does not really offer an alternative. This is an area which needs to be explored to find an alternative which allows for effective collective bargaining.

9. Investment

Attracting Investment based on Sugarcane

To optimise the development of sugar cane in greenfield areas, diversification opportunities (other than raw sugar) should be included in the sugarcane processing mix. International model of greenfield development with diversification (primarily cogeneration and ethanol production), followed by other bio-products is well established. However, without an ethanol market operating as a base platform, the Australian sugar industry will struggle to realise the full potential of biochemical opportunities. Similarly, there needs to be on-going commitment to developing large-scale renewable energy facilities.

The passing of the Queensland State Liquid Fuel Supply (Ethanol and Other Biofuels Mandate) Amendment Bill 2015 has introduced some certainty for potential investors in ethanol production. However, the level of the mandate is subject to regulation and is thus uncertain and there is effectively some sovereign risk with a change in Government.

From a cane grower's perspective, the sustainability clause will be subject to regulation and this is needs to be linked to Smartcane BMP.

To encourage an environment of value-adding on traditional agricultural industries, the Federal Government can implement policies that promote value adding opportunities. With biofuel development, there needs to be retention of some form of excise treatment as a critical part of a range of policies that encourage uptake of biofuel.

The benefits of these policies would not only benefit the expansion of the Australian sugarcane industry – they would also prove to provide a secure, renewable fuel source for Northern Australia and provide a source of base-load energy generation for other domestic, commercial and industrial users.

10. Electricity

Some 50% of the sugar cane area is irrigated with electricity as the main power source. The competitiveness of these areas has been severely jeopardised by the over 96% increase in electricity prices over the last 8 years which is driven by regulation.

CANEGROWERS has consistently argued that the electricity pricing framework is broken. Government policy is pushing electricity costs higher, eroding the international competitiveness of the Australian sugarcane industry.

CANEGROWERS is seeking the introduction of a suite of tariffs for food and fibre production that reflect the needs of the sector, particularly those of irrigators. Tariffs should reflect irrigators' demand on the network as base load and off-peak users. It is important that there be a worthwhile off-peak tariff differential.

Electricity network regulation is a federal issue. Failure to effectively regulate has caused electricity costs for sugarcane irrigators to almost double over the last eight years. CPI for the same period is around 15%.

These regulatory failures are well documented in submissions CANEGROWERS and other have made to Senate inquiries, the Queensland government, the Australian Energy Regulator, Queensland Productivity Commission, Queensland Competition Authority and to Ergon and Energex, Queensland's electricity network service providers.

More specifically the following issues need to be addressed

- Need to write the RAB down by at least 50%.
- The Regulated Asset Bases (RABs) - the valuation of the electricity networks' past investments, are grossly inflated due to unnecessary and inefficient investments, and a flawed asset valuation methodology.
- Australian electricity consumers are already funding a significant level of "stranded assets".
- The networks receive guaranteed returns on their past investments (RABs) - returns which are currently driving around 70% of their prices.
- Whilst the recent regulatory rule changes have provided the AER with marginally more power to scrutinise future "gold plating", they do not allow the AER to address past gold plating.
- To seriously address Australia's unsustainable electricity prices, it is imperative that the networks' Regulated Asset Bases (RABs) are re-valued to more appropriate levels

CANEGROWERS recommend:

- that the weighted average cost of capital be limited to a ceiling of 6%;
- a rule that would enable irrigators, and all farmers, who are large users of electricity, to be a separately classified class of customer alongside business and households;
- implementation of volume based food and fibre tariffs, reflecting agricultural power use patterns on the network in terms of base load and off-peak use and including worthwhile time-of-use incentives for agricultural businesses during off-peak periods and over weekends;
- revaluing the regulated asset base of network businesses to remove the impact of historic over investment from the underlying cost base;
- promotion of increased competition in the electricity market; (allocation of CSO to the network); and
- linking capital expenditure (and regulated asset base) to network tariff customer classes.

Application of Competitive Neutrality to essential services

Competitive neutrality reform was undertaken to ensure that publicly owned businesses did not enjoy any net competitive advantage simply because of public ownership. In response, state and territory governments corporatized government owned commercial entities and imposed full taxes or tax equivalents and debt guarantee fees to offset advantages from government debt guarantees.

By imposing taxes and charging corporate debt and equity rates, the benefits of public ownership have been removed from state owned corporations. The removal of the competitive advantages was designed to encourage private sector investment and to build a competitive market for previously monopolistic services. In the provision of essential services (particularly electricity and water), there have been mixed outcomes following the application competitive neutrality to publicly owned corporations.

Competitive Neutrality and natural monopolies

There are instances where competitive neutrality reforms have had a perverse outcome for consumers. Applying competitive neutrality provisions to natural monopolies has resulted in artificial increases in price of essential services while delivering super profits to government (as 100% shareholders in publicly owned companies) and incentivised anti-competitive, monopoly rent seeking behaviour. The competitive neutrality principals also incentivise governments to engage in non-commercial policy delivery through its infrastructure companies, rather than having those companies provide essential services at lowest cost.

The lived experience of competitive neutrality principles to natural monopolies has been higher prices for consumers, super profits for shareholders and inefficient monopoly service delivery. Of particular relevance is the charging of corporate debt and equity rates for the provision of monopoly infrastructure (electricity poles and wires, water distribution schemes), the imposition of tax equivalents to income and non-commercial policy delivery through natural monopolies.

Compared to the price of other farm inputs, the prices of goods supplied by government owned natural monopolies (electricity and water) have increased at a faster rate than any competitively priced farm input.

E.O.D