12 August 2016

Regulation of Australian Agriculture
Productivity Commission
Locked Bag 2, Collins St East PO
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Regulation of Australian Agriculture

I write in response to the Draft Report entitled "Regulation of Australian Agriculture". I wish to address three elements of the report specifically arising from the discussion contained in Chapter 11 regarding the marketing of raw sugar. I preface this submission by noting that the draft report recommends repealing the *Sugar Industry (Real Choice in Marketing) Amendment Act 2015* (the "Act").

SISL is a Sydney based investment fund that has aggregated approximately 4,000 acres of sugar cane farms in the Burdekin region of North Queensland. SISL strongly believes that scale and a connection to the world market is the key to a healthy Australian agricultural sector. SISL brings a unique perspective on the sugar industry to the debate over how best to achieve this connection.

1. Scale

Firstly and with specific reference to SISL's position as an investor of 3rd party capital in cane farming, we concur with the observation of the commission that scale is vital to the success of Australian farming. However, by repealing the Act, growers will be denied a contestable market for raw-sugar marketing services that is a vital link in the chain to the world market. This is a certain recipe for lower investment (in aggregate) in cane farms over time.

In our view, an open and contestable market for raw-sugar export-marketing services is a crucial element in creating an attractive economic landscape for investment in sugar cane farms to create the scale desired by the commission. The Act is designed to deliver such a contestable market.

If the Act were to be repealed, cane growers would be forced to hand their economic interest in the raw-sugar (defined in the Act as "GEI Sugar") to the marketing arm of their monopsony mill. If this were to eventuate, the macroeconomic environment for investment in sugar cane farming would be so unattractive that not only would SISL reconsider it's investment strategy, but in our view the necessary 3rd party investment funding required to deliver the scale that the draft report argues the the cane farming sector needs will not be forthcoming.

2. Re-regulation?

Secondly, I make the point that the pejorative use of the word "re-regulation" throughout the draft report indicates a fundamental misunderstanding of the details of the sugar industry landscape. That it follows the line of argument put forward over the past 18 months by the milling sector is deeply concerning.

By definition, re-regulation implies less choice than before. From a practical perspective, repeal of the Act would result in de-facto re-regulation as it ensures that, even with collective bargaining, the mills will be able to enforce their regional monopoly.

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I say this because prior to the Act passing into law, all growers supplying Wilmar (including SISL) were presented with a proposal that, despite efforts at "window dressing", ultimately obliged all growers to hand all their GEI sugar to Wilmar's marketing arm under a 20 year contract. There was no room for negotiation on this point. This is just as effectively a "single desk" as the regulated QSC of old, a retrograde and disastrous outcome for the health of the domestic sugar industry.

The initial de-regulation of the Queensland sugar industry in 2006 did not go far enough. The part of the value chain between mills and the world market was certainly de-regulated, however, the part of the value chain between mills and growers was not. If the value chain between growers and mills is to be properly de-regulated, growers should be afforded the same access to world markets that the mills claim is vital to their success.

I also observe that in the entire debate over sugar marketing, no-one is disputing that each and every grower is entitled to their economic share of the realised value of the raw sugar regardless of the semantics used. The supply chain as it is currently constructed is designed to ensure a logistically efficient continuous chain of custody of the physical product, and not an allocation of economic value. It therefore follows that legal title, as it is allocated at various points along the chain, is an artifice of contract and not an immutable right. It is the underlying economic interest in the raw sugar that drives the rights.

I make the point that all of the net market value of GEI sugar flows to growers through the payment for their cane. Mills receive no share of this value in any way. On this basis, why should growers be denied the capacity to deal with their individual economic rights as they see fit?

3. Single Desk? Where?

Finally, I note that the Act does not enforce a single desk. It simply opens the field to anyone seeking to offer raw sugar marketing services for anyone with an economic interest in raw sugar. Of course, the mills are seeking to characterise the legislation as enforcing a single-desk, but at no point does the legislation stipulate this. Growers will allocate their GEI sugar to the marketer that delivers the best results over time. If the mills do not wish to compete this only serves to indicate their true motives.

In conclusion I urge the commission to reconsider its recommendation to repeal the Act. The Act is a vital piece in the full and proper deregulation of the Queensland sugar industry. The Act facilitates a contestable market for growers to participate in the world market. It will foster competition for marketing services, encourage the investment in cane farms that will drive aggregation and scale, and ultimately, deliver a more efficient and stronger industry.

Yours faithfully,

Steve Kirby