Kalamia Cane Growers Organisation Ltd

The appointed Mill Suppliers Committee for the purpose of the Sugar Industry Act, 1999

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NCP Inquiry
Productivity Commission
PO Box 80
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<u>Review of National Competition Policy Arrangements</u>

We refer to the Productivity Commission's Issues Paper dated April, 2004 and acknowledge that this submission is being prepared and lodged after the closing date of 11th June but we request that it be admitted and considered by the Commission.

This submission refers to Item No 4 (a) (i) of the Treasurer's Terms of Reference, ie the impact of NCP and related reforms..................and their impacts on significant economic indicators such as growth and productivity, and to include significant distributional impacts, including on rural and regional Australia.

Specifically, we refer to the impact the application of NCP has had on both producers of sugar cane and raw sugar mills and the general public purchasing refined sugar.

The current method of controlling the price of domestic raw sugar between the raw sugar industry and refiners was implemented from 1st July, 1997 subsequent to the recommendations of the Sugar Industry Review Working Party (SIRWP).

There is no need to cover the background to this issue except to say that it follows the removal of the $55 a tonne tariff protection which was previously in place to cover the importation of sugar and also the SWIRP Committee recommended prohibition on the current Queensland industry from including the estimated cost of shipping sugar to Australia in the price at which it sells its sugar now. The Sugar Industry Review Working Party's preferred approach to these matters is set out in its Report. (no copy attached but it will be available in a library within the reach of the Commission) In effect, the raw sugar industry now sells sugar to domestic refiners at the same or similar prices to that which it sells to overseas buyers. It is known as export parity pricing.

However, in the four years which have passed since these recommendations were made and implemented, two important transitions have taken place.

The first is that there has been a rationalisation of sugar refineries within Australia, but more particularly within CSR Limited where it has closed four of its units in some state capitals and then Sugar Australia was formed by way of a partnership between CSR Ltd (50%) and Mackay Sugar and ED and F Mann with refineries at Mackay and Melbourne in Australia and Auckland, New Zealand. (More recently, CSR Limited has acquired the ED & F Mann share of the refining business and now holds 75% of Sugar Australia.)

The second has been the significant reduction in the price of sugar around the world.

Both of these circumstances are related when it comes to the pricing of domestic raw sugar and the return it pays to the industry and, of particular concern, where the selling prices for domestic refined sugar have gone in comparison to that which has happened to raw sugar post the introduction by the Queensland Government of what has become known as the Ministerial Directive which price controls the value of raw sugar sold to Australian refiners on behalf of the sugar millers and growers of sugar cane by limiting the value of sugar sales to the No 11 price of sugar on the New York Futures Exchange plus regional premiums. However, there is no price control on the refiners of domestic sugar within Australia.

Let us explain.

* when the new pricing policy was implemented, the raw sugar price returned to the industry (ie the No 1 Pool price for 1997 season) was $343.25 a tonne

  At the same time, the retail price of a 2kg package of sugar was in the range of $1.69 to $1.74 (see attached newspaper advertisements)

* At an estimated raw sugar price of $233 per tonne returned to the industry from the 2003 season, the purchase of a 2 kg bag of refined sugar here from a well known grocery retailer shows its price is now $2.41 (copy of cash register docket attached) even though the price of raw sugar for domestic refining continues to fall.

What this shows is that:-

(a) the raw sugar price over the period has reduced by about $110.25 a tonne which is a 32% fall in value.

(b) the retail price of refined sugar in 2kg bags has increased in a range from $1.74 to $2.41, an increase of 38.5%

This shows that with refinery rationalisation and reduced raw sugar prices being paid by refiners, that the refined product has continued to rise in price.

It certainly appears to us that the domestic refiners are creaming off the profits from domestic sugar sales at the expense of the sugar mill owners and the cane growers and what is making that possible is that the Ministerial Directive from the Queensland Government is forcing the New South Wales Milling Cooperative to have to match raw sugar prices for domestic sugar sold in Queensland. Given that the NSW refiner, Manildra can buy its sugar at the same price as Sugar Australia and Bundaberg Sugar Limited (the two Queensland based refiners) pays in Queensland, there is effectively no competition between the three national refiners to purchase domestic raw sugar from mills anywhere in Australia and this presents them with the opportunity to collectively mark-up their prices for refined sugar.

As an indication of this, when the Federal Government announced it would impose a three cents levy on all domestic sugar to pay for the sugar industry rescue package, there were a number of very public orchestrated protests from all and sundry in the sugar users group but the most outstanding was the NSW Minister for Primary Industries who took up the cause of an unnamed apiarist who, because of drought conditions, could not find enough native trees in bloom to sustain his bees so he purchased refined sugar to feed them and, when one converted what he was said to have paid, it came to $800 a tonne. We do not know the size of the packaging in which he took delivery of his sugar but $800 at tonne for refined sugar over any of the last six or seven years can best be described as a rip-off and you can be sure no sugar mill or cane growers obtained any of that excessive payment.

Such examples lead us to question “what is the public benefit?”

It is certain that the “public” is not gaining any benefit from the present price control inflicted on raw sugar producers by the Queensland Government. In fact, the opposite is occurring.

Then there is the question of “public benefit” as interpreted (or perhaps defined) by those who administer the trade practices laws who appear to try to justify what is currently happening in the sugar industry by asserting that if the producer is compelled to sell at a manipulated world price, the secondary manufacturers and retailers can sell it at what ever price they wish because it creates employment and the country benefits from such policy.

Do we know how many are employed from the sugar refiners onwards. We do not know but what we do know is that between the manipulated export sugar prices and the price controls initiated by the Queensland Government under National Competition Policy, the Federal and State Governments have almost succeeded in putting the Australian raw sugar industry out of business.

We have included herewith a publication which was paid for in part by this office and others in this district who collectively engaged AEC Economics to carry out modelling to establish what would happen if the Australian sugar industry collapsed.

Given that we are dealing with “public interest”, is it in the interest of the public to have an industry of this size collapse and leave anticipated holes in the Australian economy equivalent to 75% of the Australian Defence sector, 60% of the retail component of the petroleum and coal products from the Australian economy and 60% of the iron and steel industry to name a few? Is it in the interest of the Australian public to lose the 38,000 jobs the sugar industry currently generates? Then there are the realities of what happens to sugar sold around the world like 90% of the trade is priced at above world market prices, 40% of it is between 50% and 400% <u>above</u> the world price and Australia receives the <u>lowest</u> price of sugar in the world. Would any reasonable thinking person agree that this imposition by Australian Governments “is in the public interest?” We doubt it.

We believe that competition policy inflicted on primary industries within Australia in broad terms is advantageous to a select number of manufacturers and retailers but is detrimental to both producers and the general public as the purchasers of raw fruit and vegetables and manufactured food and drinks because most of them (ie manufacturers and retailers) are large enough to squash competition and, because there are limited markets, they are in a position to both manipulate the prices they pay for the raw product and the prices at which they sell the various products.

Certainly, we are firmly of the view that the Australian domestic sugar selling and pricing arrangements are unjust and unfair and, we would observe, there has got to be better than a fair mark up in refined sugar when a company as large as CSR Limited with seven sugar mills in Queensland is prepared to allow its mills to take the risk through the price pool of domestic sugar production losses at current day raw sugar prices and, at the same time, buy another 25% share in Sugar Australia refining interests several weeks ago and can continue to make profits from its sugar division. We believe that Competition Policy is not necessarily in the interest of the public at large and the Federal Government should remove primary industries from competition clutches for it advantages no one but the trans and multi nationals.

We thank you for the opportunity to comment on this subject and trust that you can see that large sectors of the community are being disadvantaged by a blanket cover based on ideology rather than realistic management of primary industries on a case by case basis for if this is not done, and done soon, Australia will continue to have a diminishing primary production base that may prove disastrous in the long run and is not in the public interest.

Yours faithfully
KALAMIA CANE GROWERS ORGANISATION LTD

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WA Lawson
MANAGER

See Enclosure “Sugar 2020” prepared by AEC Economics