A failure to maximise efficiency and flexibility at every stage of the sugar production and marketing process limits Australia's ability to compete internationally.

For further information on SMAs see the NCC paper *Securing the Future of Australian Agriculture: An Overview*

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WHERE TO FROM HERE?

The 1995 Queensland Sugar Review identified that benefits could be achieved through changing existing arrangements. Since then, the industry has adopted a number of reforms.

Evolving domestic and world markets mean that Governments need to regularly examine whether their policies are assisting Australian industries to remain strong and competitive. In this context, a range of possible future directions could be considered for Australia's sugar industry.

Greater competition could be introduced into the sugar industry. This could mean that growers could choose whether they wished to sell their sugar through the Queensland Sugar Corporation, or alternately, whether they wished to explore other marketing avenues.

Concerns regarding the stability and surety of growers' incomes, particularly a desire to protect less competitive generally smaller growers, could be addressed through various kinds of market instruments, which may be more effective than the current Single Desk arrangements.

In the milling sector, growers could choose to which mill they sell their cane. Mills would then need to compete for cane by offering incentives such as better prices or service. This could encourage the sector to improve prices and efficiency, increase investment and better equip the Australian industry for the increasingly competitive world market.

– RIVET design –

SECURING THE FUTURE OF AUSTRALIAN AGRICULTURE SUGAR

National Competition Council
Community Information
2000

SETTING THE SCENE

Australia is the world's single largest exporter of raw sugar. Nearly 85% of our annual sugar cane harvest is sold overseas.

Within Australia, Queensland dominates the sugar cane industry, growing well over 80% of national production. The remainder is grown in northern NSW with a small amount also being produced in Western Australia.

Queensland is the only state that currently exports sugar.

This paper focuses on the regulation of the sugar industry in Queensland because it is the dominant producer and extensively regulates all stages of sugar production and marketing.

SUGAR IN QUEENSLAND

In Queensland, Government legislation controls:

- who may grow sugar cane and on what areas of land
- transfers of sugar cane-growing entitlements
- which mills process what cane (ie: growers are legally required to deliver their crop to a particular mill and that mill is legally required to crush the growers cane)
- prices paid by millers to growers for cane, including the use of "pool pricing" to stabilise prices
- compulsory sale of all raw sugar produced by mills to the Queensland Sugar Corporation

In 1995-96, in line with National Competition Policy (see table), the Queensland government reviewed its laws regulating the sugar industry.

As a result, there was some loosening of government requirements but much of the legislation restricting competition was retained.

SINGLE DESK SELLING

As a result of the Sugar Review, Queensland maintained the "Single Desk" marketing system for sugar.

A Single Desk system is where a single body or organisation is responsible for all marketing and selling of a product within the domestic or export market or both. Queensland uses Single Desk selling for both the overseas and Australian sugar markets. As such the Queensland Sugar Corporation is the only legal buyer and seller of raw sugar - all sugar cane millers are required to sell their raw sugar to the Corporation and it is against the law for them to sell to anyone else, within Australia or overseas.

The Single Desk system was kept because the Review found that it resulted in higher export prices for growers, and stabilised and secured their incomes. In particular, the ability to pool revenues from total sugar sales was considered important for stabilising the incomes of all sugar farmers.

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THE SUGAR MILLS

The Review also found that, at most times of the year, sugar mills were operating well below capacity. In addition, many mills were technically outdated and, as a result, marginally viable. In seventy years no new mills had been established as the strict government regulation did not include a mechanism for assigning cane to new mills thereby enabling them to operate.

The Review recommended allowing mills to compete for cane from growers, and that growers be able to choose to which mill they sold. However, in 1999, the Queensland Government passed legislation which effectively restricts competition to cases where both parties consent.

Therefore, while the Review resulted in the loosening of some arrangements governing local production, the scope for competition at the level of mill owners and growers still remains very limited.

The Queensland Government argues that these continued restrictions on competition have provided stability to the sugar industry, thereby ensuring continued investment and avoiding unreasonable adjustment costs on regional communities.

SUGAR & NATIONAL COMPETITION POLICY

In 1995, all nine Australian Governments agreed that in order to stimulate economic growth and job creation in our increasingly internationally focussed economy, a co-ordinated approach to market reform was required.

Queensland and all other Governments undertook to implement, on an ongoing basis, a package of reforms to be known as National Competition Policy (NCP). The NCP reforms are designed to help develop a more dynamic, creative and competitive economy.

In its simplest form, 'competition' in a market place exists when a number of businesses strive against each other to attract customers and sell their goods and services. When customers can choose between businesses offering the same or similar product, prices tend to be reduced while quality and efficiency usually improve.

One of the most important NCP undertakings is that each Government will review and reform all laws that restrict competition *unless* the benefits of the restriction to the community as a whole outweigh the costs.

The Queensland Government's 1995-96 Review of its Sugar Industry Act was undertaken in compliance with its NCP obligations.

WHAT IS THE "FAR EAST PREMIUM"?

The term "Far East Premium" refers to a "price premium or advantage" which Australia has been able to achieve due to our historical ability to supply sugar to the large Asian market with more consistent quality, reliability, and lower freight costs than most of our major competitors. It is argued that the use of the Single Desk for export sales allows the "Far East Premium" to be more easily achieved by Australian growers.

Recently however, other major sugar exporters – notably Brazil – have improved their quality and reliability, while lowering their production and freight costs, offsetting our freight advantage. Thus at present, the "Far East Premium" is minimal or possibly negative, though market conditions may see this change again in the future.

CONSUMERS

The Review also analysed the costs of the compulsory Single Desk system to Australian sugar consumers – and found them to be significant.

Historically, Australian consumers have paid a higher price for sugar - the so called "import parity price". This price was significantly above the world, or export parity, price because of the addition of a number of estimates. These included the hypothetical freight costs of importing sugar, although there are no sugar imports into Australia, as well as the value of the tariff ($55 per tonne) on imported sugar.

The ability to charge these higher prices was only possible because the sole seller Single Desk system prohibited growers from entering the market and selling sugar at a cheaper price.

As a result of the Review, the Commonwealth removed the tariff on sugar imports and Queensland amended its laws so that sugar sales to local consumers would be charged at the same (lower) price charged to overseas buyers.

Improving access to world markets represents a huge opportunity for our sugar industry and the communities it supports.

THE FUTURE OF SUGAR

Australia has a relatively small domestic sugar market and exports over 85% of its sugar crop. Improving access to world markets represents a huge opportunity for our sugar industry and the communities it supports.

Competition in world markets is significant and is strongly influenced by the presence of subsidised sugar from the United States and the European Union. As a result the world price for sugar is at a long-term low.

However, a failure to maximise efficiency and flexibility at each stage of the sugar production and marketing process limits Australia's ability to compete internationally, thus undermining the long-term prosperity of the sugar industry.

Short-term concerns, if used as an impediment to much needed change, may turn out to be shortsighted if they delay or prevent necessary restructuring, investment and efficiency gains that will improve the sugar industry competitiveness.

The removal of the tariff on sugar imports in 1997 means that failure to vigorously pursue efficiency could lead to cheaper imports entering the Australian market as well as limiting the industry's competitiveness and therefore its ability to sell sugar overseas.

Sugar is an input cost to the processed food and soft drink industries.