The Future of the Sugar Industry?

Introduction

The commercial sugar cane industry has operated in Australia since the 1860s with products that include sugar, molasses, fibre-board, industrial chemicals, rum and fertilisers.

Sugar cane, a tropical grass with a fibrous stalk, requires sunny frost-free weather, fertile well-drained soils and either lots of rain or very good irrigation. Those conditions are found in coastal Queensland and Northern New South Wales, on the Atherton Tablelands and the Ord River area of Western Australia.

Many of these areas are under threat from urbanisation—many cane growers are reaching retirement age and see rezoning to urban development as providing them a retirement income—and all regularly suffer the ravages of the weather and fluctuating world sugar prices. Mill closures and amalgamation made our sugar mills among the most efficient in the world but the drought and low world prices have again brought growers into the public eye again with pressure to increase the size of farms and deregulate the marketing side of the industry.

> **Sugar Act Changes Essential For Industry Future: CIE Report:** Changes to the Sugar Industry Act will lead to significant benefits for Queensland's sugar industry...
>
> - The removal of the cane production area system: which requires all growers to have a statutory licence to supply cane, and which restricts their ability to move between mills;
> - The compulsory statutory bargaining system: which requires growers to participate in a single collective agreement with the mill;
> - The compulsory acquisition of raw sugar on the domestic market.
>
> “Without change, CIE concludes that "Only the Herbert and Burdekin would be viable in the long term"," said Mr Beattie. [Queensland premier and Trade Press Release, 9 Dec 02]

Governments provided some drought relief to cane growers but the current support will come from a levy on Australian retail sugar sales. Their priorities obviously lie in industry restructuring (deregulation and rationalisation), supported by a *Hildebrand Report* assessment that ‘the industry must move from a “one size fits all” approach to developing regionally-based plans that strongly reflect local priorities.’ [Independent Assessment of the Sugar Industry, 2002]

As a result the Federal Government’s *Sugar Industry Reform Program* will establish an *Industry Guidance Group* to

> ‘drive the reform process, oversee the adoption of a regional business approach to industry activities, maintain appropriate communications with the government, and develop a cohesive policy direction for the industry’s long term sustainability.’ [Dept of Agriculture, Fisheries & Forestry Australia, c Oct 02]

There are potential savings from a vertically integrated industry and from larger farms, but the current industry is based on family, rather than corporate, farms and is generally the sole source of income for smaller centres in the growing areas. Likewise, some growers would benefit from selling their cane on an open market but the current system of quota cutting and scheduled deliveries, contract harvesting, etc., helps ensure that all growers share both risks and the benefits.

Larger towns such as Nambour are increasingly concerned over the potential loss of their mills. Smaller centres are even more concerned, having

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already lost their banks, post offices and other services. And growers remain unconvinced.

> **Scorn poured on cane report:** NORTH Queensland cane farmers' disdain for a new economic report into the sugar industry was clear in protests at a Townsville meeting yesterday. Dozens of disenchanted growers and their supporters protested against deregulation… [*Townsville Bulletin*, 11 Dec 02, pg 7]

The Decline of the Railways?

> 'It's really horses for courses', he said.
>
> 'Road transport gives you a lot of flexibility in where you can get your cane from and if you have a fragmented cane supply area then obviously road is much more efficient.'
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> 'Rail is good if you've got a fairly concentrated area of cane and the cane can be marshalled up and brought in on an express route.' [Bundaberg Sugar's Grant McLean on ABC News Online, 9 Jul 02],

Green cutting of cane removes the leafy tops as the stalks are cut near the ground and chopped into 25 cm long billets. In some areas the cane is still burnt prior to cutting to remove leaves and weeds. In either case, the billets must be transported to the mill within 24 hours to obtain the best quality sugar.

Cane billets are often directly loaded in the field into 4-6 ton rail bins carried on trucks or trailers, then hauled the short distance to the farm siding for transfer onto the tramline. Recent developments include self-propelled dumpsters carrying the cut cane from the field to waiting rail bins as well as much larger rail and truck bins.

Road and rail transport to deliver the cut cane to the mill is 30-40% of the total milling cost. Queensland's cane railways (tramlines) annually transport in excess of 24,000,000 tonnes of cut sugar cane over 3,500 plus kms of mostly 2' (610 mm) gauge privately (mill) owned track.

With declining world sugar prices the mills must also reduce costs to stay competitive. Cane transport, including the cost of their railway infrastructure, is one of the largest milling cost items. Increasingly the mills are seeking to shift those costs onto the growers and/or the local Shires (to maintain the roads where the mills operate).

Transporting the cane is a grower cost in some other countries and for other commodities. It seems certain that the current system of shared risk—each grower cutting and sending cane to the mill throughout the growing season—will break down with industry deregulation and/or changes in the mill delivery system. Shipping costs will also likely rise if the rail systems are privatised, out-sourced or closed.

Road transport unit leaving a cane-only ferry and then delivering its bins to a rail transfer point on Fairymead Mill's River Road. Similar units carry cane bins through most mill towns.

What of the Future?

The bottom line is that for the industry to survive, growers and millers both have to make money and transport is just another cost. Trams will only continue to be used where they are the most economical method of transport and economists would likely suggest that railway works and loco fleets are not the best use of capital.

Several mills are now owned overseas and others have shifted from cooperative ownership to a corporate structure, effectively separating mill ownership from the producers. Setting aside the issues of rationalisation, deregulation, urbanisation and transport infrastructure there's still the question of an aging grower population.

Other Resources

Australian Sugarcane, monthly industry magazine and annual review; www.thefarmshed.com.au/sugar

Centre for International Economics, 2002. Cleaning up the Act: The Impacts of Changes to the Sugar Industry Act 1999; available from www.theCIE.com.au

Hildebrand, 2002. Independent Assessment of the Sugar Industry, search for Hildebrand Report at www.affa.gov.au/

Queensland Canegrowers Organisation Ltd, www.canegrowers.com.au