Exporting Queensland Sugar to Canada

Submission to the Productivity Commission's Inquiry into the Pig and Pig Meat Industry

by

QUEENSLAND SUGAR CORPORATION

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INTRODUCTION

The Queensland Sugar Corporation is concerned over the ongoing trading relationship between Australia and Canada. Canada is a major market for Australian raw sugar exports.

The sugar industry's interest in the present Pig and Pig Meat Inquiry stems from its concerns over the possible impact on Australia's sugar trade with Canada if safeguard measures against imports of pig meat are imposed. Where safeguard measures are applied, the WTO requires that compensation to the affected country (Canada) be offered. If no agreement on compensation is reached the WTO rules allow Canada to take retaliatory action against Australia.

SUGAR TRADE WITH CANADA

The Uruguay round made modest gains for agriculture in terms of improved market access, lower domestic supports and lower export subsidies. For sugar, the benefits were much less than the average results for agriculture. Nonetheless to meet the challenges of trading in an often volatile world market environment the Queensland industry has invested and developed technology to become one of the world's most efficient producers of raw sugar. It has also developed close relationships with many of its customers, including Canadian refiners (the Queensland industry has been a regulat exporter of sugar to Canada for over 70 years). These relationships and the industry's approach to marketing more generally are designed to differentiate Queensland raw sugar from that of other origins and to position the industry as a preferred supplier in all of its markets.

Australia is one of the world's largest exporters of raw sugar. Canada is one of Australia's largest export destinations. It is the industry's only large stable non-Far Eastern market. The importance of the canadian sugar market has been demonstrated recently with the Asian economic problems. The value of raw sugar exports to Canada consistently generate export income of $230 million a year.

QUEENSLAND RAW SUGAR EXPORTS

	Canada		Total	
Year	**Exports** *t*	**Value** *$m*	**Exports** *mt*	**Value** *$m*
1989-90	473,500	198	3.03	1,379
1990-91	394,520	130	2.64	885
1991-92	449,880	122	2.11	664
1992-93	484,450	147	3.11	1,003
1993-94	657,395	228	3.26	1,220
1994-95	627,568	235	3.83	1,525
1995-96	656,209	233	3.53	1,420
1996-97	708,602	228	3.96	1,431
1997-98 est	650,836	249	4.26	1,733
1998-99 est	641,000	248	4.50	1,740

The decision by the Commonwealth government to remove the sugar tariff on 1 July 1997 and the coincident decision of the Queensland government to mandate an export parity pricing policy for all Queensland Sugar Corporation sales into the domestic market removed the last vestiges of protection and price assistance provided to the sugar industry. The Queensland sugar industry is highly dependent on overseas markets with some 85 per cent of its production, more than 4.1 million tonnes, exported annually. The Australian sugar industry is exposed to world market price for sugar for both its domestic and export sales. The world market price for sugar is one of the most volatile of all freely trade commodities. World market prices often fall below the cost of production.

The world sugar market, like that for many other agricultural commodities, suffers from the effects of government policy intervention in most sugar producing and consuming countries. This intervention takes a variety of forms with domestic prices to producers often supported by a range of tariff and non-tariff means. The European Union's sugar regime, for example, encourages the production and export of large surpluses. Sugar policies in the United States and Japan similarly insulate domestic markets from world market changes. They encourage greater domestic sugar production and the production of alternative sweeteners, reduce consumption, reduce imports and increase exports. The net effect is to depress world market prices and reduce the returns received by Australian sugar producers..

Over the course of this calender year the world sugar price has fallen dramatically. In December 1997, the world raw sugar price was more than US12¢/lb. In August 1998, the price has fallen to just US7.55¢/lb (prompt futures price 31 August). There is little evidence that a recovery in prices is imminent. World sugar production continues to rise and consumption remains weak. A leading sugar statistician, FO Licht, in its August assessment of the sugar market says that in 1998-99 world sugar output is likely to reach 128 to 129 million tonnes (compared with 125.5 in 1997-98) and could be three to four million tonnes above global demand. In summary:

- Brazil expects to produce another record crop
- Thailand and India are both expected to increase their production
- China is set to produce a record crop
- the Asian economic downturn will constrain the regions consumption
- Russia is expected to import less due to earlier excessive imports and its own economic situation.

In this environment of over supply, lower aggregate demand and increased uncertainty securing export outlets for Queensland raw sugar will be a major priority for the foreseeable future. It is in this context that the importance of Canada as a secure and stable outlet for raw sugar is amplified.

As noted above, Australia has a long history of raw sugar trade with Canada. This has developed because under CANATA (and before it the British preference systems) Australian raw sugar receives duty free access to Canada. In 1995 the Canadian government extended its GPT system to include sugar. This extension, by applying to all less developed countries, effectively zero rates the duty on all raw sugar imports to Canada.

In the absence of CANATA, Australia would be the only raw sugar exporter in the world required to pay the full Canadian MFN duty.

If by way of retaliatory action the Canadian government sought to exclude sugar from CANATA (a relatively small step in the context of WTO rules), the impact would be to effectively exclude Australia from the Canadian import market. This would have flow on effects to the value of Australian sugar in other export markets.

It is for this reason that the sugar industry is most concerned that policies in relation to the pig or pig meat industry are set in a manner which does not encourage retaliatory trade measures from Canada. Such a trade war would be highly damaging to Australian/Canadian sugar trade, an outcome which would be unacceptable to the Queensland sugar industry.

APPENDIX – SUGAR INDUSTRY BACKGROUND

In 1997, the Queensland industry produced a record 5.22 million tonnes of raw sugar. This is around 95 per cent of the total Australian output of 5.5 million tonnes. The record crop marks the further expansion of the Queensland industry from the severely drought affected crop of 1991 when just 2.8 million tonnes of raw sugar were produced.

A number of factors contributed to this growth in production – improved weather conditions, firmer prices, new varieties and increased investment in all areas of the industry's productive capacity both in the field and factory. However a major contributor to the growth was the relaxation of the production controls which governed the industry prior to 1991. Production and expansion decisions are made by individual growers in consultation with the mill they supply rather than being made centrally. The consequence is that in 1998 there are 508,076 hectares of land assigned to cane in Queensland compared with 359,795 hectares in 1989, an increase of 41 per cent. Looking to the future, further increases in the area of land under cane are likely. The pace of this growth will be governed by the usual constraints of price and weather patterns not by regulatory fiat and domestic price supports. The total cane area in Australia is in excess of 525,000 hectares.

Queensland production for the 1998 season is expected to be less than 5.2 million tonnes. The level of production will depend on the extent of damage caused by adverse weather experienced in some regions during the growing season. Extreme flooding in the north and continued dry weather in the south have affected 1998 production, lowering both yields and sugar content.

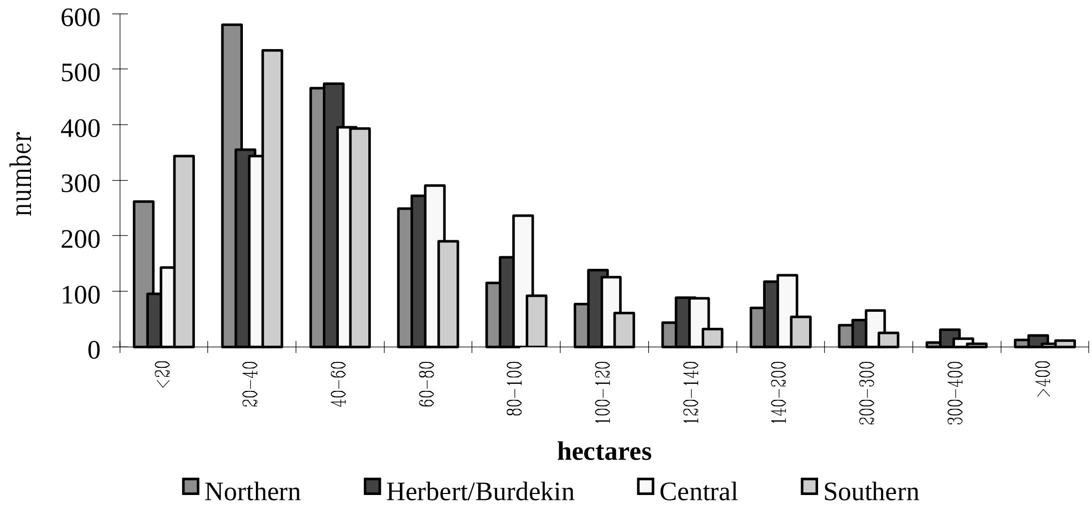
In Queensland cane is produced in the coastal plains and the river valleys along 2,000km of coast line from Mossman in the far north of the State, to Rocky Point in the south near the New South Wales border. The state can be broken into four main producing regions Northern (which takes in the area from Mossman to Tully), Herbert/Burdekin (this region encompasses the rapidly expanding districts located in the Herbert and Burdekin river valleys), Central (includes the Mackay and Proserpine districts) and the Southern (which takes in the sugar producing regions in Bundaberg and further south). Cane is also grown and sugar produced by three mills in northern New South Wales and by one mill in the Ord River area of Western Australia.

The history of the economic development of coastal Queensland is largely a story of the growth and development of the sugar industry. Much of the regional infrastructure which supports increasingly diverse regional economies was established on the basis of the sugar industry's requirements.

In Queensland, almost 6,500 (up from 5,900 in 1989) cane growers produce more than 38 million tonnes of sugar cane annually. Australia-wide, 7,220 growers produced around 41 million tonnes of cane in the 1997-98 harvest.

Australian cane farms are predominantly family owned and operated businesses, with close links to their local communities. The average size of farms is around 75 hectares. The size of cane farms has been increasing over the past two decades. Cane farms are now 50 per cent larger on average then they were in 1980. The characteristics of these farms vary widely. Some farms are small operations where family income is supplemented by other off farm activities, others are very large broad acre operations producing more than 100,000 tonnes of cane annually, with revenue streams measured in the millions of dollars.

Distribution of farm size,*by Queensland production region*



As with cane farms, Australian sugar mills are not homogeneous. The largest mill will crush more than 3.6 million tonnes of cane this year to produce almost 500,000 tonnes of sugar. By contrast, the smallest mill will crush less than 0.5 million tonnes of cane for around 60,000 tonnes of sugar. The cane is harvested during a season which traditionally commences in early to mid June and extends to the middle of December. For individual mills the season varies in length from 18 to 27 weeks.

All sugar cane produced in Australia is mechanically harvested. In the process it is chopped into billets and is milled within 16 to 20 hours of harvest. As a consequence the harvesting, transport and milling of cane is a major exercise in logistics management and quality control. Mills are responsible for the transport of cane from the field to factory. In Queensland the majority of cane (94 per cent) is transported by mill-owned rail to be crushed in one of the State’s 26 sugar mills. In New South Wales and Western Australia, cane is transported by road. The cane railway network comprises over 4,100km of track, 220 locomotives and 50,000 wagons to cart cane. The network has sufficient track to cover the distance from Brisbane to Melbourne and return.