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Productivity Commission

PRODUCTIVITY COMMISSION

INQUIRY INTO REGULATION OF AUSTRALIAN AGRICULTURE

MR P LINDWALL, Presiding Commissioner
MR K BAXTER, Commissioner

TRANSCRIPT OF PROCEEDINGS

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MR LINDWALL: Good morning, welcome to the public hearings for the Productivity Commission Regulation of Agriculture Inquiry. I'm Paul Lindwall, as I said, and I'm the presiding Commissioner. And Ken Baxter, as I mentioned, gave his apologies due to a funeral today.

5

The inquiry started with a reference from the Australian Government late last year and covers the regulations that have a material impact on the competitiveness and productivity of the Australian agriculture. It has examined regulations at all levels of government. We released an issues paper in December last year and have talked to a range of organisations and individuals with an interest in the issues. We then released a draft report on 21 July after the election, federal election, and have received over a hundred submissions and more than a thousand personal responses and views since the release of the issues paper.

15

We are grateful to all of the organisations and individuals who have taken the time to meet with us, prepare submissions and appear at these hearings. The purpose of these hearings is to provide an opportunity for interested people to provide comment and feedback on our draft report. Today is the seventh and second last hearing for the inquiry. Over the past two weeks we have conducted hearings in Perth, Melbourne, Wagga, Sydney, Canberra and Brisbane. And next week we will conduct a hearing in Hobart. Formal submissions to the draft report are invited, particularly preferably by the end of the month. We will then be working towards completing a final report to be provided to the Australian Government on 15 November. Participants, all of you, for example, and those who have registered their interest to the inquiry will be automatically advised of the release of the final report, which may be up to 25 parliamentary sitting days after completion.

30

We like to conduct all hearings in a reasonably informal manner but I remind you that a full transcript is being taken and will be published on our website. For this reason comments from the floor cannot be taken but at the end of the day people may come and make comments as they wish. Participants are not required to take an oath but are required under the Productivity Commission Act to be truthful in their remarks. The participants are also welcome to comment on the issues raised in other submissions and by other people at hearings. As I say, its submissions and the transcript of the hearings are on our website in about two weeks' time.

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For any media representatives attending today some general rules apply, please see either Oliver or Rohan to get a hand up to explain the rules.

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To comply with the requirements of the Commonwealth Occupational Health and Safety Legislation, you are advised that in the unlikely event of an emergency requiring the evacuation of this building you should follow the exit signs to the nearest stairwell. Lifts are not to be used.
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10 Participants are invited to make opening remarks, preferably around about five or so minutes, keeping them brief will allow us an opportunity to discuss the issues. Now, I welcome our participants now from Cane Growers Herbert River. And if you wouldn't mind introducing yourself for the transcript and telling us a bit about Cane Growers Herbert River and what you would like to say to us today?

15 **MR SHEEDY:** Okay, I'm Peter Sheedy, manager of Cane Growers Herbert River. And with me on my right we have Chris Bosworth, who is the deputy chairman of the organisation, and also Alf Cristaudo, who is a former chairman of Cane Growers Herbert River and a - or retired
20 chairman from Cane Growers Herbert River, and a cane grower in the Herbert.

25 And just in relation to the Herbert, it's a cane district about 110 kilometres north of here. It's a district where sugar cane has been the crop that has been most successful over the years since the establishment of the district back in the 1870s. And the history of it has been that there have been something like five sugar mills in the early history of the district started and a lot of them went broke in the turbulent years of - they relied of course on the South Sea Island labour and of course - it's well known
30 that there was a Royal Commission in 2012 - --

MR LINDWALL: In 1912, wasn't it?

35 **MR SHEEDY:** In 1912, sorry. That investigated a whole lot of things to do with the sugar industry at the time. There was a lot of instability. There was the matter of adapting to the White Australia Policy of the time. But also there was a lot of exploitation of farmers by the milling people in that time as well. So, following that there was the legislation that set up the regulation of the industry by the Ryan Labor Government of
40 Queensland. And in the early days of the industry the Central Sugar Cane Prices Board made the very first decisions about how sugar proceeds were to be shared, that's the whole of the proceeds were to be shared, and that was to be done through the pricing of cane.

45 And if you look back at those early judgments and decisions, it was

5 treating the industry basically as a joint venture where the mills and the
growers received their costs and shared the profits in the ratio of the
assets, which was about two thirds/one third, at a recovery efficiency of
about 90 per cent and of a sugar content of 12 units of CCS. Over the
10 years since then the recovery efficiency at the mills has increased
significantly and the CCS of the cane goes up and down with seasonal
conditions. And I guess it's tended to improve generally above 12,
although when the seasons are against us we're struggling this particular
year with a very wet start to the harvest and the sugar content is unusually
15 low because of the condition of the crop. It's in a growth phase rather
than maturing and accumulating sugar at this point in time. Just a little of
the introductory remarks there about the sugar industry and the Herbert.

15 I guess I wanted to apologise too on behalf of a whole lot of Herbert
River growers who would dearly love to be here today but it is because of
those pressing conditions back home and the limited window of
opportunity with the harvest and planting, both of which are very well
behind this year. When the Senate Inquiry had a hearing here in March
20 last year the halls had to be extended to - we had busloads of people.
Very vitally interested in the - and still are vitally interested, and they do
send us, you know, their moral support and regards and apologise for not
being able to make it today.

25 **MR LINDWALL:** Thank you.

30 **MR SHEEDY:** This is a matter really that as far as the growers were
concerned they were surprised that the Productivity Commission took the
view that it did, you know, and it did appear that the Commission was
probably lacking in its understanding - well, most definitely lacking in its
understanding of the industry, and possibly because of who has been most
35 forward so far in advocating their position. And we really take issue with
the fact that the Commission referred to the reregulation of sugar
marketing in Queensland.

35 And in our written submission we believe we've pointed out, you
know, a very well-reasoned and steps of argument that this isn't a case of
reregulating sugar marketing at all. It is simply correcting the imbalances
that have always been there but came to the fore when certain parties who
40 had signed off on a memorandum of understanding and a heads of
agreement about the transition to voluntary marketing arrangements, back
in 2004 and 2005, actually reneged on those understandings and
undertakings. That meant that the landscape that we understood was
going to be the basis for deregulation had suddenly changed. I guess, for
45 our part, we single our Wilmar as the main perpetrator of that renegeing of
the agreement.

5 Mr Cristaudo, who was chairman at the time, of the Queensland Canegrowers Organisation and chairman of Canegrowers Herbert River when the transaction between CSR and Wilmar was consummated, can personally attest to the assurances that were originally given by Wilmar but were subsequently reneged upon by Wilmar.

10 So for that reason, we believe that that whole section of the draft report about the re-regulation of sugar marketing in Queensland, we can see that the Commission paid a lot of attention to what the Queensland Productivity Commission had written and it's also clear to us that the Queensland Productivity Commission was heavily influenced by Wilmar's assertions and advocacy and lobbying. I could use other descriptive words too but I'll probably try and contain that. Wilmar is really trading on the gullibility of people like the Queensland Productivity Commission and the Queensland government and it really saddens the growers that the Queensland government appears willing to sell out its cane growing community and sees them as a legitimate sacrifice in the interest of investment from multinational companies.

20 That's a really sad thing for the cane growers of Queensland that our government, and we see the submission by the Queensland government, signed by Treasurer Curtis Pitt, and Primary Industries Minister Leanne Donaldson, that basically rehashes the position that the Queensland government took back when the marketing - the amendments to the Sugar Industry Act were enacted in December 2015. It's really sad that the Queensland government has taken that position but very fortunately for the cane farmers of Queensland, the whole of the Queensland parliament actually held sway and that legislation was amended. The whole of the parliament had access to much wider views than the limited input that the Queensland Productivity Commission and the Queensland government appeared willing to listen to at the time.

35 We've also read the submission by Wilmar, to these hearings today, and we believe that Wilmar are really masters of spin, as they have been with the Queensland government at the media, but they've spiralled to a new level of incredibility with their particular submission to the Productivity Commission this time, with that Christmas Eve draft media release about a new 500,000 tonne raw sugar storage facility and even doctoring that up with a photo of a white sugar storage facility to take your imagination just about as far as it can be stretched in that particular submissions.

45 These people will stop at nothing to beat up a fanciful story and they've been doing that for the last couple of years trying to convince

5 people that Wilmar have all the answers. We have seen, and it has been pointed out in the QCGO submission, that Wilmar isn't always right, that in terms of its own performance, in comparable products, it has been found wanting when it's compared with the performance of QSL, which is much more focused on the interest of maximising its return for its producers and they're to be commended for that.

10 Not only has Wilmar reneged on its undertakings at industry level and with the Foreign Investment Review Board, but they've also, in our own cane supply agreement with Wilmar, there was a requirement on Wilmar to consult with the grower reps before any changes or withdrawal from the raw sugar supply agreement that Wilmar had with QSL. Back in 2014, when Wilmar announced that it was withdrawing from the raw sugar supply agreement its announcement was, you might say that was the consultation that we received, so they also reneged on the agreement that they have with the growers.

20 So from a partner in the industry this is very concerning behaviour. At the action end of the industry we have to work together. We rely on the mills to process our crop, they rely on us to harvest and deliver a crop of cane to the delivery sidings. We do have to work together. So we do, as I said in the earlier opening remarks, that the industry was treated as a joint venture. People had to work together and each received their rewards, in proportion to their relative costs and assets at the time. This behaviour is just so concerning to the growers when we see our processing partner reneging on undertakings and reneging on agreements that they actually have with us and putting the growers, who individually may be small but collectively they're, in other assets, amount to much more significant investments collectively than Wilmar's, and their commitment to the industry is very large.

30 So I guess I'll hand over to Chris Bosworth and then to Alf to continue the submission from the Herbert.

35 **MR BOSWORTH:** All of this revolves around who owns the sugar and, as far as I'm concerned, Wilmar has never had the right to sell our sugar up 'til this year, it's all been handled by QSL, and the legislation that we asked to be put through parliament, that was approved, just gives us the right, next year, to pick QSL or Wilmar. If we follow the Wilmar model
40 next year we would be giving up one monopoly seller, which was QSL, and going to Wilmar, as a monopoly seller. We believe that we should have choice. It's not re-regulation of the industry one little bit because we never had choice this year, we only had QSL as a marketer and, like I said, if Wilmar have their way they would be the only marketer. What we ask
45 is, and other marketers are allowed to enter the field as well. So we want

choice and I cannot see that as re-regulation, unless you can point out something to me that it is. So that's where I'm coming from, it's not re-regulation at all because it was never a regulation before so I can't see how you can say it's a re-regulation of the industry.

5

In some of Wilmar's examples here, where they give the reasons why they won't produce higher quality sugar, because they said, "We've got to fund it at 100 per cent of the investment by only receiving the benefit, from sale, of approximately one-third of the sugar we manufacture." They only ever received the benefit of one-third. Are they proposing that sometime in the future that they want more than their one-third share? Because that seems to me that that's exactly what they're talking about. In the past they've only got their share of the sugar. So whether they make high quality sugar or low quality sugar, in this year, they only get the benefit of one-third. So going forward what's the difference, unless they want to put their hand in my pocket, do they, and want to take some money out of me by producing it now?

20

So a lot of things in their little examples here sound like everything's against them, they've only ever had one-third and as far as I'm concerned, that's all they'll ever get as well. So that's just where I'm coming from. I'll let Alf have a speak.

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MR CRISTAUDO: Thanks very much, Chris, and good morning Mr Chairman.

MR LINDWALL: Just say Paul, very informal.

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MR CRISTAUDO: Thank you, very much, Paul. Sorry to hear about Ken's situation and unfortunately you're here today to cop the brunt of what we've got to say. We're here to give you our side of the story because this is a very serious situation that we find ourselves in, in the sugar industry today, and particularly for the growers who supply Wilmar Sugar International.

35

Modern society, particularly in Australia today, is paranoid about protecting the rights of individuals. However, when it comes to farmers we appear to be fair game for almost anybody, whether that be government or large corporates. Isn't it ironic that the food producers in this country are at the bottom of the food chain? We are price takers and we really need not regularly, as such, but support for the position that we find ourselves in.

45

I want to deal particularly with the sugar marketing part of your report and with great respect I believe that it is seriously flawed in terms of the

conclusions that are being reached, without any real supporting evidence. You will have seen already and heard from other participants in your previous hearings and you've read lots of submission so I beg your indulgence, we do want your attention to what we are going to say, even though some of which will be repetitious.

I'm going to talk to you more on a practical level, but as Peter has mentioned, I do have a fair bit of experience in the industry, not only as a former chairman of Canegrowers Organisation but I was a director of Queensland Sugar Limited and its predecessor, QSC, for some 18 years, so I do know a little bit about marketing.

As Chris referred, the Commission has said, in its report, that the legislation is re-regulation, well, that couldn't be further from the truth. The sugar industry is fairly unique. Cane has no real market, commercial value on its own, except for the products that can be produced from processing it. We are in a partnership, and it should be a genuine partnership, with a processor. The partnership is two-thirds to the growers. You'd think that it was 100 to nothing, the way that some processors talk.

I just want to take you briefly back 100 years when farmers were exploited by unscrupulous mill owners. The industry was small at that time, it wasn't stable and growers were being exploited. The government stepped in and put in place legislation and regulation which actually protected growers but what may not be very well appreciated, protected millers. It's very important to understand that under this legislation the sugar industry became quite stable and was able to grow and expand, until the 1990s. I need to emphasise the fact that under that legislation mill owners were actually protected from competition, that is really, really important.

Apart from the Tableland Sugar Mill, which was built in 1994, Tully Sugar Mill, which was in an expanding area, was the only other sugar mill built, and that was built in 1921. So millers were able to grow their business, on the back of growers producing sugar cane, without any competition. However, once they were established to a point where it became virtually impossible for anyone to be economically and viably competitive with them, they suddenly railed against regulation and said, "We need to get rid of regulation." So please appreciate that they go to the position they were in and are in now because of those protections that were in place at that time.

The major requirement for us, as growers, is really the protection that we require against a monopoly process, a monopoly mill owner. That's

the whole crux of this issue and the only reason why we sought to have legislation put in place. The December '15 legislation would not have been necessary if mill owners were prepared to treat their grower suppliers, who, by the way, are the lifeblood of their business, with some respect and cooperate with them as genuine partners. So what we need, what growers require, is some genuine balancing power to balance the market power that a monopoly mill owners actually has.

Can I refer to some comments in the report, which refer to the only balancing power that was in place, which was collective bargaining. Now, we have an exemption from the ACCC to collectively bargain, however it is not as comprehensive as some may think. While growers actually authorise and, in most cases, it's their grower organisation to collectively bargain on their behalf, Wilmar won't even recognise that situation. They have been going behind the back of the authorised bargaining representative, on behalf of the growers, to try to convince growers individually to sign contracts, outside of the grower collective. The grower collective has no power to stop individuals from doing that, which apparently is referred to in the report. So that mechanism doesn't do the trick. It's not sufficient to protect us against a monopoly mill owner. Unfortunately, as was the case in the past, that monopoly mill owner is abusing that market power that they have.

I think it's been mentioned, in a number of submissions, so I don't want to go over it in any real detail, but sugar cane is a long-term business. It is not like a lot of crops where you're in and out in one year. It can be at least five years, even longer an investment, committed to planting sugar cane.

It is very expensive. Many growers have invested millions of dollars in their sugar cane growing business. In many cases, particularly in our case in the Herbert River, there are no real economic viable alternatives to growing sugar cane and the mill owner knows that. They are quite prepared to surreptitiously intimidate growers on the back of the fact that they know that the grower has nowhere else to go. That, in itself, is reprehensible.

As I said, the growers are the lifeblood of their business and I can't, for the life of me - well, I do, I do know why they want to do it, because they want to do it for their own benefit and don't kid yourself that for one split second that they are doing this for the benefit of the grower, absolutely not the case. We're quite prepared to work with our processor, our mill owner, in partnership, but it has to be a genuine partnership.

5 However, that's not the way that Wilmar wants to do business. Wilmar would prefer to treat its growers, the lifeblood of their business, as peasant serfs. Now, a hundred years ago that was not acceptable. It was found to be not acceptable and today, in 2016, it is still absolutely not acceptable. Now, why on earth should a grower be held to ransom by a processor, under duress, when he has no way of responding?

10 I do want to refer to some upsides to deregulation, for the grower. Despite some contrary comment from Wilmar where I see there's mention and talk about proprietary rights. Let us be very, very clear, and let's put aside the contracts that we have in place right at this moment. In our situation, from 2017 onwards, until a contract is agreed and signed between the miller and the grower, the miller has absolutely no rights, no rights whatsoever, to any cane growing on that growers land the grower has no obligation to that mill owner for that cane growing on that land or for any sugar that may be produced from that sugar cane. Can we be very clear about that? There are no proprietary rights that the miller declares that they have, absolutely none.

20 It is very important to appreciate that a cane supply agreement, once signed, determines all the terms and conditions for the delivery, supply and payment for the grower's share of the proceeds from the sugar produced from that cane, another very important point. A hundred years ago the legal arrangements that were put in place, that Peter Sheedy referred to, were a series of constructs that were put in place to actually facilitate the sharing of sugar proceeds, once the sugar was sold. People will talk about the price of cane, everything that was done in all those arrangements that were in place were determined on the basis that a grower had a share of the sugar proceeds from all the sugar sold that was manufactured from that sugar cane that they grew. It was done so according to a formula that has been agreed on for many, many years.

35 We seek no more than what is fair and reasonable for the marketing of the growers' share, the grower economic interest, sugar, from the cane that they produce. We want no more and no less than that. We're happy to accept there should be choice and if a grower wants to go with Wilmar, or someone else, that should be their choice. It should be a real choice, a free choice, with no fear of recriminations or discrimination against that grower for the choice that he makes, if he has a choice. At the moment
40 Wilmar is putting every obstacle in place that they possibly can to allow anyone to be in a position to fair and reasonably and equitably market the growers' economic interest, sugar.

45 Can I point out something that I'm sure you're well aware of? That the grower carries 100 per cent of the economic risk associated with the

storage, logistics, marketing, sale and shipping of their grower economic interest, sugar. 100 per cent risk. Now, as growers we are happy to do that, we've always been happy to do that. We'll take the upside and the downside associated with that risk, but we want to be able to control the process by which the value of our cane in the field is determined for its value. That is only fair and reasonable. I don't think we're asking too much. It's been fair and reasonable for many, many years.

So I want to refer to someone by the name of Dracula. I'm sure you know who Dracula was. No one in their right mind would put Dracula in charge of a blood bank, now, would they? Well, let me tell you that the vast majority of cane growers do not want Wilmar in charge of their grower economic interest sugar bank. No way. In today's society no means no, doesn't it? Well, Wilmar doesn't recognise no, it has to be Wilmar's way or no way. We demand respect. We want respect from our supposed partners in this business and we don't appreciate being bullied into submission and we won't accept it. It wasn't acceptable a hundred years ago and it should not be acceptable now. No one, no one, and I find it really disconcerting that anyone, whether it's the government or even the Productivity Commission, suggesting that it should be okay for a monopoly mill owner to abuse the exercise of their market power over growers. It is simply not acceptable. It is also not acceptable that in this position a mill owner should be able to mislead growers, to deceive them with deceptive behaviour and oppressive behaviour. Not acceptable in today's society and should not be, not even for farmers.

There are many submissions, as I've said, and there's been reference made - when I talk about deceptive and misleading behaviour there is proof, referred to in the comments that Wilmar was making a couple of years ago, where they could offer the growers \$45 a tonne more for their sugar than QSL, I mean can you believe that? They had the hide and the gall to actually say something that was absolutely not true and, as a matter of fact, has absolutely nothing directly to do with marketing. Marketing and pricing for sugar are two very separate and distinct things. The marketing is for the sale of the physical sugar, the pricing is a different matter. It was also referred to, when it came to the crunch, and I actually challenged Wilmar to set up a pricing tool, with relatively similar conditions as the QSL pool, in 2015 they were \$30 a tonne less than that pool, run by QSL. As a matter of fact, the QSL pricing pool arrangements have more constraints on them than what Wilmar has.

So they are not beyond trying to mislead growers in their surreptitious coercion. Very serious claims but, unfortunately, I agreed that everything I would say here today would be the truth and nothing but the truth, and it is, unfortunately. We want to work with these guys. We've got nowhere

else to go, they've got nowhere else to go. They need our supply of cane, as I said, it's the lifeblood of their business, why not treat us with a bit of respect? We wouldn't need this legislation in place if we had a bit of good faith and we worked together for the best for both parties.

5

So I suggest, with the greatest respect, that the PC needs to seriously review their report and the flawed recommendations, in relation to marketing, which have no real basis in fact. I would also respectfully suggest that that recommendation be deleted from the report, thank you.

10

MR LINDWALL: Thank you, gentlemen. We don't have too much time, but I'm a bit curious, you both mutually depend on each other and yet the antipathy between the two sides is pretty bad, and that's not a very good long-term relationship, I would have thought, in any industry. One of the options you might have is buy out the mill. Why doesn't QSL, for example, own mills, rather than - that would then align your interests more closely, one would have thought.

15

MR CRISTAUDO: If I can respond to that. We actually prefer the current situation because QSL is actually owned by the growers and the mills and it is at arms' length from both parties. It delivers real transparency, that's the whole point of having QSL in there. Now, we, the growers who supplied CSR at the time actually did try to buy out CSR. As it turns out lucky we didn't, at the time. We certainly weren't prepared to pay what they wanted for it and it certainly wasn't worth what they paid for it. If I can just say this, in this room, we, the growers, now appear to be paying the price for Wilmar paying too much for the CSR assets. So they are looking to screw us to get back some of their investment.

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MR LINDWALL: If the split of return is two-thirds to the growers and one-third to the mill, don't your interests exactly align? So if they get an extra one dollar of price you both share in that benefit?

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MR SHEEDY: Can I just explain? The incentives in that cane pricing formula work such that the price of cane relates to the price of sugar and then there's a CCS minus four. In other words, the first four units plus whatever the improvement in recovery efficiency that the mill can get, they retain the full benefit of that. That amounts to nearly 10 per cent of the sugar pile, or about 10 per cent - they're actually getting actually closer to 40 per cent of the value of the sugar pile, by virtue of their recover efficiency at the mills. The Australian sugar mills probably have led the world in milling technology over the years. It's a mature industry now because we've got limited scope for further expansion. The recovery efficiency brings its own rewards and that has got that reward.

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45

5 The growers have an incentive, in that same formula, to do what they can to improve the sugar content and also to produce as much cane as they can. They have a natural incentive to get rewarded by that. So we do have some alignment in incentives with producing more of the crop, more of the pie, making it bigger, there is a bit of alignment in that regard. But, yes, there are incentives for each of the parties.

10 **MR CRISTAUDO:** Paul, can I respond to that? Thanks very much for asking that question, it's very important. It's very important to understand that out in the marketplace for raw sugar, which we effectively sell, despite what Wilmar will try to tell you, a buyer of raw sugar for their refinery is not going to pay Wilmar one dollar more than what they would pay QSL for the same sugar. It just isn't going to happen.

15 What Wilmar is seeking to do is get control and ownership of that sugar so they can become a trader in the world market, a very seriously risky business. We are quite happy for them to do that with their own one-third of economic interest sugar but we do not want them to do that for our two-thirds economic interest. Like I said before, about Dracula, why would we allow them to control the marketing and all the arrangements around what is our value, our sugar? I hate to say this, but we don't trust them, we certainly don't trust them. So why would you put Dracula in charge of that sugar?

25 **MR LINDWALL:** Another way of addressing the issue because, as I say, it doesn't seem very healthy and, moreover, I know that you like the Act that the Queensland parliament passed, but a future government might repeal it, so I don't think you should be relying on an Act that's - parliaments get fickle about these things, you can see what happened in New South Wales, with the banning of greyhound racing. You don't want that type of thing to happen so I'm wondering how we can improve the relationship between the growers and the miller.

35 Another way of seeing it is that you could contract the miller to do work, under an access regime, under the ACCC, have you thought of trying that?

40 **MR CRISTAUDO:** That's another issue where we are stuck with a monopoly processor. We don't have anybody else we can negotiate with.

MR LINDWALL: That's what an access regime is all about, is about access to a monopoly processor. It happens in lots of other parts of - that's a general trade practices or Competition Consumer Act provision which is for monopoly services. Rather than relying on an Act which is

specific to an industry, it's often better to rely on a general Act, which is less likely to be arbitrarily repealed.

5 **MR CRISTAUDO:** We would rather not have the - I hate legislation because, as you say, someone can jump in and repeal it at any point in time and then you're stuck. The issue is that all the grower has is his cane in the field. The balance of power rests with the processor, so it's going to be a Mexican standoff. Who's going to look each other in the eye and who's going to back down first? The grower, who has a perishable product in the field feels like he is under absolutely duress. Why should that be allowed to happen in this day and age? Why can't these guys sit down with us, partners, and work together? That's all we ask. Like I've said to them, and I'll say to you now, "You do whatever you want with your one-third share, but get your dirty, greasy mitts off mine."

10
15 **MR LINDWALL:** Given that I've got to speak to Chris Cannavan, is there any other - there's a whole lot of other things in the report, by the way, rather than just that. I'd like to talk a bit about your genetic modification and technology and the future of the industry and how you could improve the life of sugar cane, which I guess is very difficult, it's like 24 hours, if I'm not mistaken, between - - -

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25 **MR CRISTAUDO:** Once it's harvested, yes, it deteriorates. It's like cutting an apple.

30 **MR LINDWALL:** Is there any technological solution to increase the lifespan, which would then give you more options in terms of having your cane milled?

35 **MR CRISTAUDO:** I think the short answer to that is no. It's a perishable product, let's face it, that's where a lot of constraints are.

40 **MR SHEEDY:** We jointly fund a research body but it's focus is more on increasing the size of the pie and tackling the things that limit the scope of the crop. New varieties and more productive varieties and things of that nature.

45 **MR LINDWALL:** Could I, as a final point, and I hope you can sort out some of these problems, and we'll look at it in our report, but the fact is you should go and have a look at the part 3A of the Competition and Consumer Act and see if it might be helpful to you. I don't know if you have looked at that, but it might be a way forward. We might look at that ourselves and maybe offer suggestions to you.

5 **MR CRISTAUDO:** Another option, obviously, would be that we would engage the mill owner as a processor whereby we ultimately own what comes out of the factory. The trouble is, we don't control the factory. Once again, they're a monopoly processor so all the cards are going to be stacked in their favour. If we had another mill sitting right next door, or very close by, not 100 kilometres away, by the way, that's not economically viable, then we'd be in a totally different position and they'd be more than willing to sit down and talk to us.

10 **MR LINDWALL:** That's when, by the way, technology, I spoke of technology, whether you could improve the lifespan of can, which sounds not, the other way that technology can improve is reducing the costs of milling and that gives you the opportunity of building a new mill, in competition. I'm not sure if that's an option then. Technology, IT, is
15 allowing the cost of certain produce production to fall quite dramatically, have you looked at that, perhaps?

20 **MR CRISTAUDO:** It's fairly common knowledge that lots of people have looked at competing. Unfortunately, people like Wilmar actually use this in their favour because in today's world, in Australia in particular, the cost of building a new facility is horrendous.

MR LINDWALL: They are some of the other issues raised in our report.

25 **MR CRISTAUDO:** There are other countries in the world where they can build a factory for a third of the cost that we can here, and that works against us as well.

30 **MR LINDWALL:** Well, we better leave it there, thank you, gentlemen. We'll ask Chris Cannavan to come forward. You're not related to Matt Canavan, by any chance? I used to work with him in the PC, of course.

35 **MR CANNAVAN:** In a strange sort of a way we are, but it's a bit of a story about it. Our forefathers had a fight, Matt's forefather dropped one N out of his name because he didn't want to be associated with my forefathers.

MR LINDWALL: Please introduce yourself.

40 **MR CANNAVAN:** I apologise, I'm pretty hopelessly deaf, from too much building and grinding and hammering. That's why I had to sit close, and I thank the Herbert River fellows for the little bit I caught. I'm just wondering whether my submission is really relevant at all. I'll read it
45 from my notes.

Hello to the people from the Productivity Commission. My name is Chris Cannavan, 71 years old, a sugar cane grower and harvesting contractor in the Inkerman area. Our family has been growing cane and supplying Inkerman Mill since it was built and open for business in 1914.

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I would like to take this opportunity to put forward a snapshot of the past and present crushing seasons at Inkerman Mill, to no better people than yourselves from the Productivity Commission. The sugar harvest season involves utmost cooperation, starting with the farmer, the harvest crew and then to the miller. An important chain of people who should know what they are doing. I will endeavour to point out the millers are the weak link in this important chain.

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Forty years ago we received more for sugar than we do now. The reason growers are still in business today is innovation and productivity. The world price for sugar is out of our control, therefore to stay in business we have to grow more cane per person. For example, 30 to 40 years ago a 5000 tonne farm would be run by the farmer and a worker. Through innovation the farmer now grows between 30 and 40,000 tonne by himself, a fantastic achievement.

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Mechanical harvesting was invented and developed in Australia. Inkerman growers were the first in the world to supply a hundred per cent of chopped cane to the mill. Inkerman has got that distinction, the mill that I supply, owned by Wilmar. At the outset of chopper harvesting 800 tonne per week was thought impossible and when achieved was not believed. Now the same three man crew can cut and deliver 800 tonne before lunch, on nearly any given day, another fantastic achievement.

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A big harvesting group 30 years ago was 40,000 tonne, we were one of them. Now a big group is at least 100,000 tonne. With these productivity gains the grower sector has been able to survive low sugar prices.

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The miller, on the other hand, 30 years ago, could achieve 80 to 100,000 tonne per week. At our mill, Inkerman, a figure that has not improved to this day. I will go as far to say their throughput has gone backwards. I've got a supplement here that I put in this morning.

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An example of their underachievement is the 2010 crush where, at the end of week 10, we had crushed only 30 per cent of the crop. The figures should have been 50, 5 per cent per week for 10 weeks. Up to the end of week 10 there had been no rain, poor mill performance alone was the reason that we were 20 per cent behind where we should have been. Then the rain set in and from week 10 till Christmas we only managed to get

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another 50 per cent off to take us to approximately 80 per cent. Anyone can see if 50 per cent of the crop was off in the first 10 weeks we could have removed the whole lot then all the claims and counter-claims would not have been necessary, and are still going on today.

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To improve the miller's bottom line, the industry was convinced to move into continuous crushing, which has effectively taken away the weekends, which were used, in years of above average rainfall, to get the crop off. A fact that was never mentioned in the lead up to continuous crushing is actually what we got is not continuous. The mills still have to stop for 24 hours every couple of weeks for a clean out. This does not need to happen. There is technology out there for them to crush straight through.

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Continuous crushing. The grower alone made the increased miller profit possible, but at what expense to the individual farmer? No spare days, weekends. A rain event, therefore, pushes the crushing season beyond Christmas, like we're facing this year in Inkerman, the second week in January they're talking about. Because of no spare crushing days, if I can explain, when we have had adverse conditions in the past the local magistrate - the miller and the grower would approach the local magistrate, he'd declare a state of emergency and the mill was able to start up over the weekends, because of union strength, start up over the weekends and we had two spare days to catch up, but those spare days are gone. Because of no spare crushing days heavy harvesting equipment has to go into the wet fields too early, causing damaging compaction which dramatically reduces yield in the following years.

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It cannot be pointed out strongly enough that the Australian grower and harvesting sector is by far the most innovative, progressive body anywhere in the sugar growing world, without question. The same cannot be said about the miller.

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I think I heard Peter Sheedy mention the word "saddened" when he was - it saddened him and it's ironical that I've got here the same thing here. This is just an appendix, but I should say it. It saddens me to see, after a rain event when groups go off roster bins are delivered equally to all groups, regardless of their size, henceforth the small groups end up 6 per cent ahead of the big groups, madness.

40

I've sensed, over the last couple of years, with Wilmar's takeover that the push and shove at the top has filtered right down to the people we deal with, on a local level, and equity has gone out the window, "Leave it to us, we'll look after it. Stop your whinging." And they're not looking after it. Inequity is terrible in our area.

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5 I see burnt cane standing in the paddock for four days because of mill
breakdowns. Why are fresh burns happening before this starved cane is
removed? Equity is not happening. I listened to the Herbert River fellows
there, I can see what's happening on my local level, if this marketing thing
is allowed to go through we will be completely under the control of the
miller.

10 We're not forced into growing cane, we're not forced into signing a
cane supply agreement, I realise that, but the north and the Burdekin, as
traditionally a cane growing area, other crops can be grown in the
Burdekin, but nothing grows as well as cane from Proserpine north and
we'd be silly to go off it and I think the miller realises that and they're
15 playing a game of bluff, maybe, and my fear is that individually they're
starting to pick us off and the big support base for withstanding their push
I hope stays strong and I hope you people at the Productivity Commission
will see what is happening and, like our previous speaker says, we're not
asking for regulation we're asking for what's always been there. Thank
you.

20 **MR LINDWALL:** Thank you, Chris. Just a couple of questions. About
the spare crushing days, is that something that you, as growers, could
agree on, if you think that would improve your outcomes? It's
unfortunate to have no spare days is pretty draining.

25 **MR CANNAVAN:** Well, there's no spare days now. No, there's no
spare days. The industry for how many years, 80 years, crushed from
Monday to Friday. The push was on, like a socialist view, that people
such as yourself might say, "Well, if the area can grow more cane because
30 of continuous crushing, let it happen." Whereas the individuals, the
growers that were there, some of them on the outskirts had free land that
they could bring in but by far the biggest majority was landlocked and had
to cop continuous crushing thrust on to us. It's always been a bugbear of
mine, even though I've grown to accept it now.

35 **MR LINDWALL:** It must be difficult for the younger generation who
might - - -

40 **MR CANNAVAN:** Well, we're a very sports-minded, family orientated
town and to take our weekends away from us has hurt a lot. The sports
club really suffered, collapsed in a lot of cases.

45 **MR LINDWALL:** What do you think - you were talking, I think about
how the size of outcome to what, about 100,000 tonnes, is a large
operation now. What would you say is a minimum size?

5 **MR CANNAVAN:** If you're looking at Burdekin wise now, probably the average contract is up around 70 or 80,000. Thirty years ago, well, it would have been - I think they used to talk about 25,000 that long ago, so it's gone up two and a half times.

MR LINDWALL: But millers haven't improved the productivity to the same extent is what you're saying?

10 **MR CANNAVAN:** No.

MR LINDWALL: I don't understand, if there's a technology that allows them to not have a day off every two weeks, is that right, 24 hours, why wouldn't you do so?

15 **MR CANNAVAN:** Well, I for one followed the push into continuous crushing with a lot of interest and I never once heard, and talking to our representatives at the time, I've been on the equity committees and mill suppliers committees and I never heard mention that it wasn't really
20 continuous, they'd have to shut down to clean. That only became apparent afterwards.

Why? I will give the Australian millers their due, that the Australian
25 milling technology led the world once. The rest of the world got their ideas from Australia. But the rest of the world has powered ahead and Australia's sugar mills, well, I don't know. We're in a high cost country, a high cost country, how these sugar growers, including myself, are still operating, I don't know. It's only because of these productivity gains we've made that we're still operating. Why the mills haven't taken on
30 that, I suppose it's an expense and they've weighed it up and - look, to answer your question better, I think they look - they don't look at us as individuals here, they look out their window and see one huge cane paddock. They'll keep on taking that cane until the season - the rains move in and it shuts down and that's it. They're running with the same
35 mills they did. I don't think they're in a position, maybe, to spend money. I don't know.

40 Wilmar's come in here and are making big losses. We're in a high cost country but from what I can see they're trying to recover some of their losses by getting hold of our sugar.

MR LINDWALL: Could I ask about labour market issues here? Do you employ people under seasonal workers, or holiday makers, 457 visa
45 holders?

5 **MR CANNAVAN:** Not so much in the cane industry. In the vegetable industry around the place they do. There could be a couple of 457 haul out drivers. No, our operation, I've got myself and two sons, we grow around 20,000 tonne and we harvest, since 1966 we've been contract harvesting and we harvest around 80,000 tonne and we've got an owner/driver, one of my son's a driver, and our two haul out drivers are owner/drivers. So we really employ no one. It's had to go that way and we've become very efficient in what we do.

10 **MR LINDWALL:** It's amazing what you do with such a small workforce.

15 **MR CANNAVAN:** Yes. We've got fully depreciated gear, I was only thinking about this the other day. Our harvester and the two trucks are fully depreciated and yet, at a moment's notice, because the millers are so erratic with their need for cane, or they ring us up and say, "We've had a breakdown, breakdown, breakdown," we can go from - we're about 115 bin a day group, we can go from 60 bins a day and then at a moment's notice, when they get a surge of adrenalin and she's running, they'll ring us up and say, "Can you do 60 extras?" We can go 50 per cent increase on our allotment at a moment's notice, on fully depreciated gear. Some people might say, "If you can do that, you must have over capitalised," but we haven't. We know how to operate the stuff, we're keeping it in fine running order and we can react to their demands immediately.

25 **MR LINDWALL:** I would have thought you'd have to have that capacity, given the short timeframes that you're operating under, that you'd need to move up and down very quickly in response to fill capacities.

30 **MR CANNAVAN:** Let me say, it never used to be like that. The miller was, if I heard you right, we could count on our quota from the mill of containers that we fill religiously every day, day after day after day. Thirty years ago that mill used to do - it has cracked 100,000 tonne. Now, 35 if they get 87,000, like they did the week before last, they think it's a great achievement. That's 30 years ago they were doing better than they are now.

40 **MR LINDWALL:** Interesting, yes. That's a deterioration in productivity in the mill industry.

45 **MR CANNAVAN:** Well, look at our productivity, it's marvellous. That's why when I heard you people were coming here, I thought what better people to talk to about productivity.

MR LINDWALL: Productivity is all about getting higher yield and higher returns from your given property, if you like, which is what you're doing.

5 **MR CANNAVAN:** No, it's about staying in business.

MR LINDWALL: That's true. It's what Dicken's said, "You earn one cent more than you spend and you're in profit and that's all you need to do." If it goes the other way then it's a downward spiral.

10 **MR CANNAVAN:** Yes. I back the Herbert River fellows and implore you fellows to have a real good look at what this Singaporean company is trying to do to us. It's scandalous.

15 **MR LINDWALL:** Thank you very much. The schedule says we'll have short morning tea break and then we'll have Jonathan Pavetto so I'll be here - sorry, I'm mistaken, Frances O'Callaghan after this. Let's have that now and then morning tea. Sorry, my apologies.

20 **MS O'CALLAGHAN:** Good morning, I'm not sure of the procedure.

MR LINDWALL: Just say your name and talk about your operation and say what you want, really.

25 **MS O'CALLAGHAN:** My name is Frances O'Callaghan, myself and my husband, Peter Bucknall, have a small beef enterprise, mixed enterprise, in the Townsville region, in Woodstock. I just did a very casual submission, we sat together on the day of the earthquake actually, in the office and ran out halfway through thinking, "What's happening."
30 So it's very casual, it's just a sort of brainstorming about the things that irritate us, so really all I'm here for is a good whinge.

The admin and the regulation and paperwork we seem to have to deal with is very substantial. My husband is 64, I think he's probably about
35 the average age of an Australian farmer at the moment, and if it was up to him it wouldn't be done and I think we would have been sold up or finished many years ago, because if you don't keep on top of it, well, you have to.

40 So just in the list of things I've brought up in the written submission, livestock movement. We have to complete waybills to transport stock. Now, I'm not sure what actual value they are for the movement of stock. Yes, to get to the destination they give information but my husband's never been stopped by a stock inspector and the stock checked. It's
45 paperwork that we seem to have to do for I'm not sure what actual

purpose. Maybe there is a purpose that I'm not aware of, but now that you're dealing with your agent at the yards possibly some sort of consignment note direct to the agent, I don't know, and the abattoir, but the waybills are quite substantial in their information required. Again, as I
5 say, I'm just not sure about whether they need to be as detailed or as - of if they have a regulatory purpose because where is any sort of back up there? You're meant to be checking that the animals you're moving are the animals, you put the brands down, you put the sex down, well, whoever checks that? Does anyone ever stop and check.

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Next, I've got NLIS tags, which is the National Livestock Identification Scheme. They're a real pain for us, in that if you wanted to use them to benefit your productivity you would put them into your livestock as calves. However, we'd avoid doing that because they seem to
15 fall out and you lose them and therefore you've got an expense of around, I think it's about \$3 each, or something in that region, but you want to avoid losses, so we don't tag, really, until we sell. But we're paying for it, but it's meant to be for a national traceability so in our view, if it benefited us in some sort of identification and protection and ownership of stock it would benefit us also. So, for example, if it was in either a microchip
20 form, or a bolus form.

Now, I've heard that some meatworks won't take bolus tagged cattle because they can't, for some reason. I don't understand it, but they
25 haven't got the facility to actually take them. So for us it may have a national significance in traceability and disease, but if someone decides to lift some of our cattle they just cut the tags out and who's checking brands anymore? Does anybody check brands? So what I'm saying is we pay for it, so could you not benefit us in some way by ensuring identity by not
30 being able to be removed in some other sort of fashion?

The next one I've got is livestock production assurance. I think that's what LPA stands for, I just call it LPA. Now, you have to comply with the requirements of LPA, which is fair enough, and I'm sure most
35 producers do, but they do some audits as well and we have been audited once, because of NLIS identification mix ups. If they crop up they come and audit you and see what sort of operation you're running. I mean I can't even remember the stuff the chap went through with me, because it's just going in one ear and out the other because a lot of it, you think, "Oh my God." One of the things was when we vaccinate, he said, "Do you have the batch numbers for those vaccines?" To take a batch number of a vaccine from a major pharmaceutical company and have to record it against the livestock, I mean I just thought that was preposterous. What,
40 another burden for me to have to worry about? I'm not going to do it, I'm sorry, I just haven't got the time to record a batch number of botulism or
45

5 something that we give to our livestock when you're vaccinating several hundred head annually, or whatever. I just didn't think that was fair and I thought it was an onus and burden on us that we could do without. Then I thought, why couldn't the batch number be put on the invoice, so at least you've got that with your purchase. If that's a requirement, if it's so important, why can't that happen?

10 MLA, we pay \$5 a transaction levy per head. It's a cost. If you're trading you're - if you're buying and selling a lot then you're paying more than just on one lifetime of an animal.

15 Yard fees and agent's commissions. They're quite substantial, you know? You've got quite a lot of money for very - I mean I know you've got yards, they're expensive operations et cetera, but when you look at 7 per cent of your livestock that you've had to conceive and then get to all the processes of life and then to actual sale, whether it's a two or three or whatever-year-old animal, or older for cows, it just seems like a lot of percentage there.

20 Livestock curfew in Queensland. I don't understand it, I don't know why it's necessary. It doesn't happen in other states, I believe. So why, why, why do we have it? I don't know.

25 **MR LINDWALL:** That's an animal welfare issue, because they're not being fed for 48 hours or whatever, is that right?

30 **MS O'CALLAGHAN:** Yes. Well, I mean a lot of trucking, you know, travelling cattle full, supposedly, isn't great but then again MSA, Meat Standards Australia, requires that they are - like for glycogen in the muscle, that they're kept on feed for as late as possible. But it does stress livestock. If you can throw a bale of hay in or - I don't know. I don't know if there's any real solution to it. Maybe there is no solution.

35 I've just got to number 7, we're probably able to comply with EU accreditation but I just can't even face it. I can't even be bothered to start looking into it because it's just so much stuff that you've got to deal with. Maybe I will, because it may - again, it's just another thing, you're getting on with everyday stuff and you think, "Well, I should look into this." Because of our practices I think we probably are eligible and there might be very minor tweaking you have to do. But it's just another big parcel of stuff that you would have to deal with that you just can't muster up the energy to, sort of, deal with.

45 Yes. Environmental Reef Management Plans, so if you fall within the catchment of the reef, you had to comply with these. Now I'm not sure

5 what the status is of these now, you know, I don't know. But we did have to complete one. I didn't even show it to my husband because I think he just would've lost the rag completely. It's just another regulation. I don't even bother discussing it with him anymore because I know it's got to be completed. He just cannot understand the interference into the grazing industry by all of the external - you know, everybody else, sort of thing, and it just becomes intolerable.

10 So I'm not sure what's going to happen about EMPs, or EP - no, sorry, ERMPs. I'm not sure what's going to happen about them. I don't know. We really are in a bit of limbo there, so I don't think anybody knows.

15 We just currently employed two employees and, yes, you've got to deal with all that paperwork and, et cetera, so - - -

MR LINDWALL: Are these temporary workers?

20 **MS O'CALLAGHAN:** They are just for the dry season, so.

MR LINDWALL: So they're what, working holiday makers?

25 **MS O'CALLAGHAN:** Yes. But again, you've got to make sure you're compliant with all your, you know - - -

MR LINDWALL: Yes, and you've got to pay superannuation and then they leave and, of course, they never collect the superannuation, so.

30 **MS O'CALLAGHAN:** Don't they?

MR LINDWALL: Well, they could but half of them don't.

MS O'CALLAGHAN: I tell them because I think - - -

35 **MR LINDWALL:** Yes, half of them don't apparently.

MS O'CALLAGHAN: Well, I tell them because they can get that when they leave and that's part of the wage.

40 **MR LINDWALL:** I know. I know.

45 **MS O'CALLAGHAN:** But it does go in but, yes, it's all paperwork. Then this new super-streaming came in or whatever, so. Of course, GST and the fuel rebate, more regulation and paperwork. You know, I don't understand why we just can't get a discount from the fuel supplier and

then they - him do the paperwork for us, sort of thing. But, you know, we have to fill out and claim back, more paperwork.

5 Vegetation management, again, very topical. You know, we - I mean, it's not something we are really interested in doing. We don't have the capital to clear, and it's not something I personally would want to do. But clearing substantial, or adequate strips on new infrastructure, such as new fencing or, you know, roads. We're in cyclone areas. Of course, you get a cyclone through and you can't traverse the property until you clean up, and then you've got fences and everything to clean up. The last big cyclone, our numbers came up 30-odd head short, so God knows where they ended up. We just can't account for them once they've gone that far. You know, it's unlikely, sometimes, you get them back.

15 One thing that really annoys me is the burden on us compared to local authority. I'm currently in a bit of a dispute with Townsville City Council. They have no budget for weed control, I believe. So their weeds on their road reserve overhang our clear country. They do nothing and have told me under the Civil - I think I've sighted it, Civil Limitations or something. I've got a bit later on there. They don't have an obligation. Even when Yasi came through their trees fell over onto our fences. We had to pay to dose their trees off our fence lines.

25 Now, you know, fair is fair. I mean, we've got enough country to worry about never mind doing all the work on the Townsville, you know, and they still want \$9000 a year rates, you know.

MR LINDWALL: If your thing fell on their property they'd be coming after you.

30 **MS O'CALLAGHAN:** Well, it would appear that way and it just seems that they can escape those sorts of obligations. So we've got new legislation now. There's a workshop on down at the Burdekin in the next couple of weeks, so I'll go to that to see what other things we have to, sort of, contend with. We're meant to register our working dogs with local council, you know, another bit of regulation for graziers. You have to register a vehicle. But it's a working animal, you know.

40 I've picked some of these off the scope that outlined in the - you know. So medications for livestock. Some medications, obviously, only available with veterinary consult and script.

MR LINDWALL: Which is expensive, yes.

MS O'CALLAGHAN: And awkward. If we could go into our agent and purchase some of the things that you need to have on hand regularly for, you know, cattle and horses such as the, you know, penicillins or topical eye ointment.

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MR LINDWALL: I certainly understand the eye ointments, maybe not the penicillin. But maybe you're right because of the immunity - the eye ointment. I mean, my family is from a beef cattle farm and I used to use it quite a lot myself, on the cattle of course.

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MS O'CALLAGHAN: Yes. And phenylbutazone for horses, and also the Hendra, I don't know how difficult that is, whether it's subcutaneous or, you know, I would assume. I don't know. So I've got 25 horses and only one of them is vaccinated for Hendra because he required veterinary treatment. Now it was six months and now I believe it's gone to 12. But, you know, if I have to get a vet to do it, you know, I'd be - - -

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MR LINDWALL: The call out fee and all the rest of it, yes.

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MS O'CALLAGHAN: And annually. Leasehold to freehold, I don't know if this is relevant, but - - -

MR LINDWALL: Is that something you want to do?

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MS O'CALLAGHAN: It is. We're just waiting to see what Mr Katter is able to - if he's able to have any success with this Rural Reconstruction Board. Because, you know, if you could do something like that when you were able to access some sort of reduced rate, get better commercial rates, then you would look into it. So we'll see. But it's not something we're going to - because it's all capital. We've got to pay again.

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MR LINDWALL: Yes, yes.

MS O'CALLAGHAN: You know, we've got to pay again after buying the lease, however long ago. You know, you've got to pay out again. Obviously, a lot less than was originally, so. But in that transfer from leasehold to freehold we are required to pay for the survey. Now, I'm thinking to myself, well hang on you've been getting rent off us for the past however many years and then we're required to do the survey, to pay for the survey? Some require native title, et cetera, requirements. But for us, I think, raising homestead perpetual lease is relevant.

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MR LINDWALL: That's correct, yes.

5 **MS O'CALLAGHAN:** But the surveys still are. Again, the scope spoke about, I think, subdivision and different things like that. So for us, we're in the catchment of the Ross River Dam. We're not permitted to subdivide under 1000 acres, which is, you know, quite restrictive on our blocks there.

MR LINDWALL: You've got 3200 hectares, is that right?

10 **MS O'CALLAGHAN:** Yes.

MR LINDWALL: I think I read somewhere.

15 **MS O'CALLAGHAN:** Yes, that's right. So, and yet, there are small blocks surrounding us. So, you know - - -

MR LINDWALL: Yes, of 50 acres or something.

20 **MS O'CALLAGHAN:** Yes. So why can't we, sort of thing, you know. I mean, if you could obtain some capital by doing that sort of thing, you could. You know, it would assist if you could. I mean, I'm sure the costs are huge. You know, it's not like it's all dollars coming your way. There's got to be a lot of costs associated with that sort of thing. But it's an option we don't have.

25 Rates and council, I'm not sure again if this is relevant, but you rated on your unimproved capital value. So, for example, for us that's in the region of \$9000 now in the Townsville region. That doesn't include any services, so that is just on unimproved capital value.

30 So going onto the next is road maintenance. Our titles are two separate titles adjacent. The front half where the house block is, we have a road to that. But the back block has its own separate road which the council won't do anything to maintain. So again, that affects actual market values, if there's no real road. It doesn't just go to us; it goes to other properties as well.

35 **MR LINDWALL:** They're collecting rates off you which is supposed to be maintaining roads, yes.

40 **MS O'CALLAGHAN:** Well, and they have blatantly said they are not going to do it, to another neighbour who needs that road. That block alone we pay half, so it's about 4000 annually. Of course, that's going to be going up. I don't know what the increase in Townsville was this year, but.

45

MR LINDWALL: Yes.

5 **MS O'CALLAGHAN:** Planning Commission, I think that was mentioned also. We had to obtain two separate and Material Change of Uses Planning Applications to diversify on property. One for horse riding on a cattle station, and the other was B and B in the homestead. Each of those were full MCU applications with, you know, substantial costs. I think, a couple of thousand dollars each or something, you know.

10 The next one I've got is about a powerline fire we had. I don't know if it's relevant, but it's another issue.

MR LINDWALL: It sounds a bad experience you've had, yes.

15 **MS O'CALLAGHAN:** But another major administrative burden we've had to deal with where a power line was built through our property. We thought the worst thing about it would be it was ugly. But the worst thing about it was that in middle of the 2009 dry season a fire started on a Friday afternoon metres from the easement in the mountain range on our property. So, you know, and burnt us out. Came back, went up the hill, came back a couple of weeks later and burnt us out. We've spent six years writing letters, just wanting someone to take responsibility for it because, you know, it didn't start by magic. The smoking was allowed on site and we're still in, you know, in shall we say discussions, formal discussions, about that.

MR LINDWALL: Did you lose any cattle at that time?

30 **MS O'CALLAGHAN:** No. But we were left, you know, in a serious position without - - -

MR LINDWALL: Yes.

35 **MS O'CALLAGHAN:** I mean, we're like probably a lot of smaller beef produces, there's no excess.

MR LINDWALL: Yes.

40 **MS O'CALLAGHAN:** We have grass and we had dry feed, and we always have dry feed. You know, supplement your dry feed.

MR LINDWALL: You need it, yes, yes.

MS O'CALLAGHAN: Then to have that burn in front of you, through no fault of your own. Yes, fires can happen and if they do happen and if they do happen and they come from far away - - -

5 **MR LINDWALL:** It's a natural cause, that's a different thing.

MS O'CALLAGHAN: Yes, but to start off - - -

10 **MR LINDWALL:** But if someone's actually being negligent, that's different.

15 **MS O'CALLAGHAN:** Yes, yes. On your property, and then to walk away, and then to have a Queensland Government fire inspector say it was arson by someone unknown, which is, you know, government investigating government, you know. To come up and say, "This is arson by person or persons unknown", when it's about seven metres off a Powerlink easement in the middle of nowhere. Anyway.

20 Mining exploration. We have to deal with, personally, exploration mining permits and we've had to deal with it probably for eight years and it only finished last year when the mining company advised that they were relinquishing the tenement or whatever it is they have. So there was substantial exploration. They created substantial erosion. They took water from water sources that we weren't aware of till we've found out afterwards.

25 Then also, we had to chase up with the Department of Environment and Heritage because there was, you know, substantial erosion created by them putting tracks in to get to do their drilling, you know, because they had their big drilling rigs come out, et cetera.

30 Insurance costs, again I'm not sure if this is relevant. We only really insure our house and shed with a, you know, for cyclone, all the rest of it. Now that's just what somebody else does in town. Yet, because we're on larger acreage we're penalised and we - - -

35 **MR LINDWALL:** Yes. How much extra do you estimate it to be?

40 **MS O'CALLAGHAN:** I don't know, but our insurance for house and shed is over \$7000. So I think property in town people are looking at maybe three, four.

MR LINDWALL: Yes, I would think so.

45 **MS O'CALLAGHAN:** So we could be - I don't know.

MR LINDWALL: Double or something, yes.

5 **MS O'CALLAGHAN:** Yes. But again you can't guess. So say, for example, some of the commercial insurers like Woolworths has gone into house insurance now, they won't insure you over 50 acres. You know, they won't look at your insurance - or five acres, or 50 acres, something like that. So we don't have that - - -

10 **MR LINDWALL:** Of course, the insurance doesn't cover, for example, the damage to the pasture caused by that fire.

MS O'CALLAGHAN: No, no, we don't bother with anything like that.

15 **MR LINDWALL:** Exactly, yes.

MS O'CALLAGHAN: We couldn't afford it.

20 **MR LINDWALL:** No.

MS O'CALLAGHAN: So for us, land rental, rates and insurance total almost, you know, in the region of 25 to \$30,000 and we haven't even looked at a beast or put a dollar into a beast, never mind any mortgage you might have over the purchase of the - these are just land rental, rates and insurances. Interest rates, again.

25 **MR LINDWALL:** That's probably a bit out of our scope.

30 **MS O'CALLAGHAN:** Okay. We've got rural fire brigade levy, regulations, permits, you know. Another thing we have to deal with, of course, firearms licences, another regulation. The concession on loan applications, I don't know, again, if that was something that was relevant.

35 **MR LINDWALL:** Probably not. I don't - - -

MS O'CALLAGHAN: Very difficult. Very onerous for people to do, you know, I think, because of that much of the concessional funds have been utilised, so.

40 **MR LINDWALL:** Well, thanks, Frances. Could I just ask a few questions about your submission?

MS O'CALLAGHAN: Can I - - -

45 **MR LINDWALL:** Yes.

MS O'CALLAGHAN: Apologise, because I just added one more that I did yesterday.

5 **MR LINDWALL:** Yes.

MS O'CALLAGHAN: And that was the agricultural census. I thought I'd get out of it by telling my husband to write on the census saying, "I am a 64 year old grazier and I don't use a computer". He sent that back and, of course, they sent us a hard copy.

MR LINDWALL: Yes.

15 **MS O'CALLAGHAN:** So I had to fill it out yesterday and it took me an hour.

MR LINDWALL: At least the computer was working for the hard copy.

20 **MS O'CALLAGHAN:** Yes, well, you know, I - - -

MR LINDWALL: Do you have good internet coverage out there?

MS O'CALLAGHAN: No, not great. We're on a wireless - BigPond wireless.

25 **MR LINDWALL:** My other Inquiry is on telecommunications.

30 **MS O'CALLAGHAN:** I see. We're only in Woodstock which isn't really, you know, in the bush. It's only 35 - 40 minutes from Townsville. It's very slow. Very poor signal.

MR LINDWALL: So the NBN hasn't come to town yet?

35 **MS O'CALLAGHAN:** I don't know. I don't even know what that is. No, I don't know.

MR LINDWALL: That's the broadband network. They're supposed to have satellite service out here, I would've thought. Actually here in Townsville it'd be different, but.

40 **MS O'CALLAGHAN:** But, no, it works but it's slow and very poor signal, you know, because we only get one or two bars of signal.

45 **MR LINDWALL:** Well, I think you've got a very good point on the NLIS tags and I think that we might've said something in the report about

why we don't use microchips and bolus tags. They seem to make a lot more sense and I think they'd be probably cheaper and more reliable. If the microchip was used and it was acceptable, would you use it for other purposes on your farm to - - -

5

MS O'CALLAGHAN: I think we could do because everyone is all about efficiency and productivity. We're all try to value out as much as we can.

10

MR LINDWALL: Yes, exactly.

MS O'CALLAGHAN: Especially when you're small you've got to maximise the value of each animal. Now if you could, you know, look at growth rates, different things, performances - - -

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MR LINDWALL: Exactly. You record it on a little thing like that.

MS O'CALLAGHAN: Yes, you can. You could, yes.

20

MR LINDWALL: Then you just scan the - - -

MS O'CALLAGHAN: Yes, yes. I can't - - -

MR LINDWALL: I think you can already scan these things on that.

25

MS O'CALLAGHAN: Yes. I mean brands will never go because we need to have a visual identification between your neighbours and you know. If you're looking at cattle in a mob, you can't see whether - you know.

30

MR LINDWALL: Exactly. No, that's true, but - - -

MS O'CALLAGHAN: So your brands you'll still need, I suppose. But, yes, something that could give us security of ownership, if we're paying for it, and also perform the traceability function, would be preferable to what we have now where it can be cut out and you really aren't protected.

35

MR LINDWALL: Yes.

40

MS O'CALLAGHAN: I mean, you know.

MR LINDWALL: Yes. What about your use of water and dams, for example, on your property and the water rights and interaction with the environment departments on that? Nothing about water? So you just have dams that have been built many years ago, I guess?

45

5 **MS O'CALLAGHAN:** Yes. I don't think we have any restrictions on small - you know, I don't think you could dam off rivers or anything like that, but we have small dams. But we're mostly watered by natural water courses that can last for 12 months and bores. But we do have some dams.

10 **MR LINDWALL:** The environmental reef management plan, would you be willing to give us a copy just so we can see how much work is taken to fill it in?

MS O'CALLAGHAN: Yes, yes. I'm not sure what the status is of them now, but yes most definitely.

15 **MR LINDWALL:** Good.

MS O'CALLAGHAN: I have mine tucked away in the drawer. But we haven't been bothered by them for quite some time.

20 **MR LINDWALL:** Okay.

MS O'CALLAGHAN: But, yes, not a problem.

25 **MR LINDWALL:** What else was I going to ask you? Your levy for the MLA, do you think you get good value as a farmer out of the MLA?

30 **MS O'CALLAGHAN:** I don't know. I mean, beef is a major protein source. I mean, yes, I know it's in competition, in the domestic market, with pork and chicken and all the rest of it. Maybe that's where the levy is going to keep beef in front of mind with, you know - beef and lamb, sorry, maybe it includes pork too, I don't know. So, I don't know. We're not really involved. I mean, we just haven't got the time to be political, I'm afraid, with these organisations and to be - I don't know. I don't know.

35 **MR LINDWALL:** Yes, that's right.

MS O'CALLAGHAN: You know.

40 **MR LINDWALL:** On the labour market, your working holiday makers, do you use an agent or do you - - -

MS O'CALLAGHAN: No, no.

45 **MR LINDWALL:** How do you find them?

MS O'CALLAGHAN: Just there's a backpacker job board that you can boast an ad on, Queensland Backpacker Job Board.

5 **MR LINDWALL:** Yes.

MS O'CALLAGHAN: Then they contact you through the job board.

10 **MR LINDWALL:** You've been generally happy about the working holiday makers?

MS O'CALLAGHAN: Yes. They're all looking for their three months to get their second year really of our regional - - -

15 **MR LINDWALL:** So they're quite keen then?

20 **MS O'CALLAGHAN:** Yes. Being in our industry with cattle and also horses which attracts a lot of - that's why I'm here. I was one 25 years ago and ended up marrying the bastard, so. Yes. No, no, I mean, it's a lovely experience for them. We've got two girls with us at the moment and there's a new rodeo grounds opened in Townsville so we'll take them to their first rodeo on Saturday. It's great, a great experience. Yes.

25 **MR LINDWALL:** Good.

MS O'CALLAGHAN: Apart from the tragedy of course.

MR LINDWALL: Yes. Well, thanks very much then, Frances.

30 **MS O'CALLAGHAN:** Thank you very much.

35 **MR LINDWALL:** We'll talk about getting that environmental report. We might now break for morning tea. There's some coffee and tea at the back, if you all like. Then at 10.30 we'll come back and talk with Johnathan Pavetto.

ADJOURNED [10.10 am]

40 **RESUMED** [10.29 am]

MR LINDWALL: Let's get going. So if you just introduce yourself?

MR PAVETTO: Thank you, Paul, and thank you to the Commission. My name's Johnathan Pavetto. I'm the fifth generation of a sugar cane growing family in Ingham, just north of here in Townsville. I'm here today under my own volition. The submission I have prepared is in a relative amount of detail and that was prepared, sort of, all entirely because I wanted to - it's the views that reflect my own, not the views of anybody else and I haven't received any financial compensation for preparing the submission.

10 Today, I'd like to provide some high level feedback on the draft recommendations and findings of the Commission, respond to a number of claims made with regards to sugar marketing, and then propose a number of issues for examination that may require regulatory response, keeping in mind that this inquiry is all about the right regulations in agriculture, not necessarily less regulations in agriculture.

15 First off, on environmental regulations, the Commission is dead right in its view that environmental regulations are a problem for the agricultural sector. They have been for quite some time. But the regulations that we have in Australia don't just impact productivity here and now. It's not a present issue; it's a long term issue and it's an issue that affects the issue of all agriculture in Australia.

20 It's certainly given us a bad name in the community, particularly in communities that don't have an agricultural interface, that don't appreciate and understand what actually happens. That also builds issues in terms of future regulation and future problems with decision makes in Brisbane and Canberra, but it creates a long term problem for our industries.

25 Look at the sugar industry, for example. This is quite a good crowd that we've got here today mostly of cane farmers, and it's the youngest crowd of cane farmers I've probably ever seen. The average age is certainly a lot higher than what we have here today. Because of the bad name that we have from environment regulations, we don't have many young people wanting to come back to the industry and work in the industry. So that is a real long term problem.

30 The focus of the Commission on landscape level regulation, particularly around vegetation management is very appropriate. It would work. I think the issue isn't necessarily a technical one; it's a political one. But we'll leave those issues for a different forum.

35 If I could raise a few issues in the environment space to your attention? We can't forget about the Great Barrier Reef Regulations. I understand the Commission looks at issues across Australia, but for us

5 here in North Queensland and also for similar people in Central Queensland, the issues around the Great Barrier Reef are a real problem for agriculture. It's not that the doomsdayers say that the reef is dying and we're the ones to blame. You know, quite the opposite. The agriculture space in Queensland are incredibly good environmental shielders of the land. The issue that we have with reef regulations is that it's an extra compliance burden, it's an extra cost, and often there is no consideration for the economics of the cultural sector.

10 Looking at regulations in general, in Queensland there's a very alarming shift of the administrative burden. The State government is pushing the cost of regulations back onto the people they're regulating. This is across all sorts of regulations, whether it's a vegetation management, your protected plans, your water issues; the state government is doing a lot to push the cost back. It's not just costs in terms of the application fees for permits to do the sorts of things we need to do. It's costs in terms of mapping exercises and basic regulatory tools that the government, as the regulator, should be paying for.

20 A good example in Queensland is with our regulated vegetation management maps, and that if we look at our maps and they're inaccurate and we do something on our farm that should be legal and should be allowed on farm, but it doesn't comply with the mapping, we're the ones to blame and we could face imprisonment. If we want to correct the maps, it's not up to the state government to correct the maps, we have to hire our own consultants to prove to the state government that, in fact, their information's incorrect, which is really quite extraordinary.

30 Now there is a case for some environmental regulation. But when we look at basic property rights across Australia, we've got an increasing burden of environmental regulations that are eroding property rights. If we look internationally, we can see that in the US they've got mechanisms such as regulatory taking mechanisms where if you lose a potential income stream from a property right that you have then you're duly compensated for it. That applies for all sorts of regulations around the United States. What I would suggest is that the Commission could investigate the opportunities for that, strictly in the environmental context, in Australia and even if it's strictly with agriculture, because we are losing a lot of property rights and we are losing a lot of capacity to generate income, while we're still wearing all the costs.

45 I'd encourage the Commission to look at the regulation of agricultural chemicals very similar to other environmental regulations. We do need to make sure that when regulators make decisions there is some sort of understanding of the costs and the economics of their decisions, not

5 strictly the environmental ones. In the sugar industry, we have had some rather profound problems with APVMA banning chemicals that have put great costs back onto the industry, whether that's costs of new chemicals that we've had to use that are a lot more expensive or whether it's costs in terms of lost productivity because we can't use the chemicals that we have been using for some time that are very effective.

10 Again, if there is a case to be making these sorts of decisions on environmental grounds, there needs to be some sort of compensation made to the farmers that are trying to do this, because if we're going to achieve a public benefit, it shouldn't come at an exclusive private cost to the agricultural sector. So some sort of mechanism where a subsidy could be paid to lower the unit price of a new chemical back to the existing chemical or the previous chemical, these sorts of things would provide the environmental outcomes that people are looking for. It will also not impact on productivity in the agricultural sector.

20 Moving onto transport regulations. It's a rather big concern for the agricultural sector and it's one that's been growing in recent times. It's been growing in recent times because with the introduction of the National Heavy Vehicle Law and the National Heavy Vehicle Regulator, the regulations that govern the movement of agricultural vehicles really has been an afterthought. There's no doubt that the National Transport Framework was designed to support the road freight industry. There's nothing wrong with that, it's great for the road freight industry. But it's not working for agriculture.

30 To understand why it's not working, we've got to look at the different sorts of heavy vehicles that we have in agriculture. Most of the heavy vehicles that we have, particularly in cropping industries - so it's not just sugar, it's also wheat and cotton - they're not designed for freight. It's not moving from point A to point B on a defined route consistently over a period of time. It's about harvesting or planting or spraying weeds or apply fertilizing and that's on, generally, erratic patterns because you're moving across a selected area from paddock to paddock. You're moving most of the minor roads, not major roads. The vehicles are not designed for roads; they're designed for paddocks. So you've got weight issues. You've got size issues.

40 The way that the new frameworks apply, to move anything you need the appropriate permits. The examples were provided in the Commission's report are very fitting for what's going on in agriculture and in Australia. The best way forward would be to set up a new regulatory framework for agriculture. We're not saying get rid of the National Heavy Vehicle Framework. It works for road freight, but it

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doesn't work for agriculture. There can be certainly a case for a new framework to apply to agriculture.

5 Now if I can move to the most topical item of the day, sugar marketing. Now, this issue has received a lot of attention in Queensland. I understand you like to focus on other things because there's a lot more in the report than just one sole recommendation, but it's an important one. It's important because for many growers in the industry, particularly smaller ones, smaller growers that we have, it's a life and death issue. If we can't resolve the issues around sugar marketing, there really is no future for the industry.

15 Part of looking at sugar marketing arrangements, we need to make sure that people, like the Commission, are making well informed decisions around all the issues that exist; well informed decisions around industry structure; and we need to make sure that recommendations to government reflect what's going on in the industry.

20 Unfortunately, what we've seen in the Productivity Commission's draft report is that there has been a recommendation made that doesn't reflect the structure of the industry; doesn't take into account the unique economic structure; doesn't look at the detail of what sugar marketing is; and really doesn't make any attempt to understand what's going on with basic competition between different sections of the industry. I would encourage the Commission to look at a lot of the claims that were made, particularly the claims that I've outlined in my submission and really to make a value call and a judgment call as to whether or not the claims really are true and accurate and, hopefully, reflect that in the final report.

30 The Real Choice In Sugar Marketing legislation is a brave new competitive world for the sugar industry. It is a legislative tool to promote competition in sugar marketing and it really is no different to other acts, such as the Competition and Consumer Act, which is a very important act that facilitates in Australia. The only difference is, that this is an industry specific act to deal with an industry specific issue.

40 If I could respond very directly to some of the claims that milling companies have made? The proposals that they're putting forward are to replace one monopoly industry marketer, known as QSL, with their own monopoly mill marketer. So the claims that are being made by milling companies that this regulation is anti-competitive simply don't stack up.

45 Another unfortunate point, which I've got to raise, was the Commission's claim that Real Choice in Marketing is re-regulation of the sugar industry. Now if you look at the history of the industry and you

5 look at the regulations that previously governed the industry, going through de-regulation, what Real Choice in Marketing seeks to achieve is nothing like we have had before. There's no return to domestic production regulations or production quotas or the peak system, as it was known. There's no import tariff protections. There's no domestic price supports. There's no statutory marketing agency, and there are certainly no single desk selling arrangements. So to say that this is a re-regulation of the sugar industry really is not too well informed.

10 When you look at the Commission's framework for legislation, it's very important because, when you apply the framework that was in the draft report, you get a very different outcome in terms of a recommendation to what was in the report. For example, you know, looking at some of the key tests that were identified for the value of regulation in Australia, you know, are there clear objectives? Well, yes, 15 the objective of the Real Choice in Marketing is to ensure competition in sugar marketing. Does the regulation achieve these objectives and is it effective? Well, it's very effective.

20 We've got a case where most milling companies in Queensland are moving in a rather constructive manner with their growers to reach agreements based on historical initiatives. So there's nothing new that really this regulation seeks to achieve except for, most notably, Wilmar Sugar, who have been quite deliberate in their attempts to obfuscate the process to make it as hard as possible, and to try and demonstrate that it 25 clearly doesn't work. Well, nearly every other milling company in Queensland is proving that it does work. I think it's a poor reflection on Wilmar that we haven't reached an agreement, not necessarily a poor reflection on the regulation itself.

30 The last point of the Commission's framework looks at the cost of the regulation. Could there be costs that could be reduced or benefits increased? Well, there hasn't really been a constructive dialogue from milling companies over the past 18 months or longer about this issue. It's 35 been, quite simply, "No, we don't want it. It's got to go away"; not necessary, "How can we make this work?"

40 Then, when we look at the community wide benefits, we need to look at who benefits from the regulation and who wears the cost. Now the benefit is not just the 4000 growers in the industry. The benefit is the communities that surround them because if you, as a milling company, starting taking more of a premium of sugar for their own books, that means that there's less available for the growers. When the growers aren't making money, towns like Ingham or the Burdekin or Tully or Innisfail 45 aren't making either. So we've got very large social issues with lack of

receipts going through the town. Then you've got issues to do with economic development, unemployment.

5 All of these things can be avoided through Real Choice in Sugar Marketing because it provides a far and transparent way of pricing sugar in Australia and it ought to continue.

10 Now, when I was reading through the report there was really one question that I had on the section on sugar marketing, and that is quite simply, "Well what about the farmers?" The Productivity Commission really didn't have enough balance in its analysis of the issue. There was a lot of concern about mill investment, expropriation of rights from mills, mill viability, mill exit from the industry, and mill marketing premiums.

15 What about the growers? There was no attention paid to farm investment. No attention paid for the confidence of growers in the future of farming. No attention paid to farm viability. No clear concern for transparent pricing discovery for growers. Yet, the Commission looked at the issue nearly wholly and solely from the view of one company, not
20 even one sector of the industry.

25 So I'd encourage the Commission in its deliberation of the final report that it looks at whatever the reason was that there was a lack of balance in its analysis, particularly as the issues impact the growers and growing side of the industry. It needs to change. I hope that the Inquiries, both today in Townsville and yesterday in Brisbane, have informed the Commission.

30 If I can move onto other issues? There are some issues that weren't in the Productivity Commission's report and if there is an opportunity for consideration, these issues may be worthwhile. Keeping in mind that the aim of this report, in my understanding, is to ensure the best regulatory outcome, not necessarily the least regulatory outcome. So while there's a lot of focus on repealing, sometimes there might be a case for addition.

35 The first is on electricity prices. Now, this wouldn't be a surprise to the Productivity Commission. The Commission has done a number of reports on electricity prices in different forms over the years. It's not surprise that electricity prices impact everyone. But just like transport, labour and water, electricity prices are particularly concerning to the
40 agricultural sector. So much so, that in many parts in Queensland we've got drought declarations. We've had some of the worst drought in, nearly, recorded history.

45 There are some properties that have water in dams but can't afford to turn on the pumps to grow their crops or to grow pasture for their cattle.

5 The fact that this is happening really is quite sad, that we've reached this point in our economy where electricity prices are such a barrier to activity that we are in drought and we can't afford to turn on pumps. So what we need really is an overhaul of the electricity sector. There's a lot of people who've been saying it for a very long time and it needs to happen.

10 But in the context of this Inquiry, there is one thing that can be done to mitigate the impact of high electricity price in the agricultural sector and that is to look at developing a set of irrigation tariffs. Now, there have been historical basis for irrigation tariffs. They are very economically efficient. There is nothing in the national electricity laws that prohibits them from being introduced.

15 The only problem that we have with introducing electricity tariffs are the providers themselves. Quite consistently electricity providers in Queensland, and in other jurisdictions, have refused to look at this issue. They won't even investigate. The very few times when they've provided just the faintest bit of interest, they haven't given it due justice and have disregarded the matter out of hand. So I'd encourage the Commission to look at the introduction of irrigation tariffs as a means of achieving a good outcome in the electricity space for the agricultural sector.

20
25 Onto another topic of vertical integration in the agricultural sector. At a time when competition policy in Australia is encouraging the breakup of monopolies in the public services and utility space, we're going in the opposite direction in agriculture. We have increasing, mostly, foreign investment which is driving vertical integration in our supply chain. It's very obvious what's going on in sugar, but it's also going on in dairy, it's also happening in beef and in other industries.

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35 Now, this vertical integration may increase the competitiveness of the individual company and, without a doubt, that's the purpose of the integration. We've got to ask the question, "Is it in the interests of the Australian community and does it provide good outcomes for the Australian agricultural sector?" We know with vertical integration that we've got weaker competitive tension between manufacturers and marketers and this allows some economic monopolies to develop. At the end of the day, a lot of this comes back to growers receiving less and less for the products that they try and take to market, because they are losing more market power, not just in scale but also in scope, which is a real concern. So I'd encourage the Commission to look at this.

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45 Now, there are two issues with vertical integration, which I would hope the Commission would look at. The first is monopsonistic pricing. I give you a good example where we've got a large international processes

purchasing Australian food manufacturing assets. The purchase is made on commercial terms which is fine. But then we have a case where, over time, the international parent company's commercial incentives are encouraging the monopsonistic behaviour. That's quite rational. There's nothing wrong with trying to source your imports at a cheaper price or in a more secure way. It's very rational for these companies to be doing this. But is it in the interests of the Australian agricultural sector and the Australian community at large?

It is a big risk with monopsonistic pricing for farmers. We're seeing it very clearly with sugar at the moment - and I'm sure in other sectors it exists - in that are we being paid the right price and are there enough protections in place? These are two questions that the Commission could investigate in their final report. The second issue with vertical integration comes down to tax avoidance, and this may be a bigger issue than the draft report for examination.

But there's two different scenarios, the first is a competitive supply chain where a product is sold for manufacture in Australia, independently owned and it is a profit maximising entity trying to sell for the highest value to a food processor or to a different company. Now, as their profit maximising entity, the attempt is to make a profit and therefore to pay a tax on that profit.

There's a different scenario for vertical integrated supply chains though, particularly internationally, where you could have a manufacturing facility in Australia sell to the same company abroad, obviously at cost price because the point of that division on the company is not to maximise the profit in that division. The outcome is it's sold overseas and manufactured and then you've got no profit in Australia, no tax paid in Australia.

It could be the case where you've got an environment where you've got an international company that's vertically integrated into Australia that is trying to optimise their tax arrangements overseas, because most cases where large agribusiness companies are headquartered are not in jurisdictions that have high corporate tax arrangements. Now, I'm not saying that this is a particular aspersion on individual companies. Of course, everyone would act rationally in the same way. But is it in the right interests of Australia and is it in the right interest of the Australian agricultural sector?

At a local level, this issue of vertical integration is very acutely borne in the sugar marketing dilemmas that we have. We have an international agribusiness company that makes a lot of food. Sugar is a key input of

theirs, so they're looking to purchase sugar production assets to secure up their supply and probably even to reduce the costs of their sugar as an input into their food business.

5 The perception, at the moment in the agricultural community, is that the activity that Wilmar is trying to undertake in accessing sugar in a rather cheap way, is reducing our market power and our ability to receive a maximum price for our cane through the sugar price because there's no real test in the market under the milling proposals to look at transparency in pricing or to maximise the price paid as the sugar leaves Australia. That's a real concern.

15 But the perception is a big problem for us and it's a reality because it's impacting grower confidence and it's impacting on farm investment. Although your time and schedule wouldn't permit, I'd encourage you to come north to Ingham, pop into the local real estate agent and you'll find so many farms for sale. People aren't trying to sell farms from generational families, if they're making money. The fact that we've got this complete lack of confidence in the industry, which has been accelerated by the issues we have around sugar marketing, is of real concern. It should be of concern to the Commission.

25 But the Real Choice in Marketing looks to be a circuit breaker for these vertical integration issues and it could be worth applying to other sectors. Why is this important? Because it makes sure that food and product manufactured in Australia cannot be sold below a market rate to an international parent company whether that's for their own vertical integration or whether it's for tax purposes. I think that's a very good outcome, if no other outcome of choice in sugar marketing and ought to be applied in other areas.

35 There's one last topic that I'd like to raise and that is the geographic concentration of ownership of processing infrastructure in Australia. Now, this is a particular issue in the sugar industry and I know it's an issue in other areas as well, where you've got the same company that's buying up a number of processors within a geographically confined space. The outcome, of course, is a natural monopoly because there's no case with many primary products in agriculture that are perishable to transport over a certain distance.

40 If we look in Ingham, there are two sugar mills, both are owned by Wilmar Sugar and both don't compete with each other. I mean there's no issue for Wilmar in that but there is an issue for the growers because if we're looking at trying to make competitive tension in the industry, it simply doesn't exist. So I would encourage the Commission to look at

ways of ensuring that both existing purchases and future purchases of agricultural assets that have the capacity to become natural monopolies is properly scrutinised and, where they do exist, that some sort of attempt can be made to break them up to restore some sort of competitive environment into the supply chain.

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10 So these are the key issues that I would encourage the Commission to investigate in their final report. Thank you for the opportunity to present today.

MR LINDWALL: Well, thank you, Johnathon. Just a couple of questions, given the time. There's a few things we can't really address. Like, the electricity pricing is really out of our remit, unless you were to say the renewable energy target is a regulation. I suppose, one could argue that.

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20 As for vertical integration well, really, it's the Competition and Consumer Act and the ACCC, whatever, roles. I'm interested, when Wilmar purchased both mills in Ingham, was there any case taken to the ACCC about substantial lessening of competition or something like that?

MR PAVETTO: Well, Wilmar's ownership of milling assets is a legacy issue from CSR Sugar. That goes back, certainly before my time.

25 **MR LINDWALL:** Yes.

MR PAVETTO: Probably back closer to 100 years than where we are today. So it's a legacy issue that we're trying to deal with. But, you know, if I could, on indulgence, with electricity, the electricity sector is governed by federal regulation and, you know, it really certainly is worth investigation. The impacts on agriculture are significant. It's no different, in my view and I'm sure in the view of many people in agriculture, that electricity impacts farm businesses and farm productivity and farm profitability in no different way than transport regulations, labour regulations. So I'd certainly encourage the Commission to - and if you're looking at issues in other jurisdictions, well it certainly didn't stop the Commission from making an adverse recommendation on sugar marketing to the Queensland Parliament.

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40 **MR LINDWALL:** Well, we certainly look at all jurisdictions. In terms of environmental regulation, I think we did say in there that if there's a community benefit and the government thinks it should be achieved, it should, in principle, pay for it. I mean, the fact that people are living in a catchment area near the Great Barrier Reef and the Great Barrier Reef is a community asset, well then one could argue that there is a case there, I

5 guess. I certainly would think so. We'll explore that a bit more. What else here? Transportation. I think your points are well made. I certainly don't have any problem with anything you've said there. The ag vet chemical side of things. That's an interesting one. Which of the chemicals that were used in sugar growing that are no longer available?

MR PAVETTO: The most recent one is Diuron.

10 **MR LINDWALL:** What did it achieve? Sorry, excuse my ignorance.

MR PAVETTO: Yes. No. It's a fairly widespread chemical that was used for controlling weeds and pests and those sorts of things. It was a pre-emergent, to my understanding, so it was very effective. It's no longer available. There were a number of different chemicals that could have been used in the same circumstance, but they were substantially more expensive.

15 **MR LINDWALL:** Have you got a guidance of how much more expensive?

20 **MR PAVETTO:** Double, triple, quadruple.

MR LINDWALL: Okay. Yes. We've spoken a fair bit about, obviously, the structure and the sugar marketing choice act. Could I ask about QSL itself? It's a monopoly as it is. Do you think farmers are happy that it is marketing efficiently and that it couldn't achieve higher prices or better marketing at a lower cost, say, because in my experience - and I'm not casting aspersions on QSL here but if you look at history, monopolies, especially ones that are protected and are not for profits and therefore not subject to capital market discipline as we've put it, can get a little bit cosy and not really be looking at innovations and so forth.

25 **MR PAVETTO:** I think there's a very high degree of confidence in QSL across the industry, particularly from the growers. QSL have always been very proactive in providing information to growers about pricing instruments that are available. They have been innovative in delivering new pricing products. A good example is forward pricing in the sugar industry. It's one of our great strengths now, thanks to QSL and providing its services.

30 **MR PAVETTO:** I think there's a very high degree of confidence in QSL across the industry, particularly from the growers. QSL have always been very proactive in providing information to growers about pricing instruments that are available. They have been innovative in delivering new pricing products. A good example is forward pricing in the sugar industry. It's one of our great strengths now, thanks to QSL and providing its services.

35 Although, I would hate for the discussion on sugar marketing to hinge on the future of QSL, because I think it's important for the Commission to look at issues across industries, not based on particular companies. So what Choice in Sugar Marketing does is it looks at proliferating competition in the marketing space. Now, it could be QSL. It could be

another provider. It could be somebody else. You might decide the Productivity Commission served you well so you want to serve sugar abroad internationally. You know, I could too. So what Choice in Sugar Marketing does is enable this level of competition, which is important - - -

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MR LINDWALL: It sounds good in principle, but in practice is it likely that there'll be anything other than - I mean, how many farmers do you expect to choose other than QSL?

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MR PAVETTO: Well, there could be a case where the mill is going to provide - as an alternate marketer, a mill could provide a good product. There could be a case where I'm sitting in one milling district, and a milling district that has a different mill could be providing a marketing product that could be of value. Time will tell. But the alternate proposals that we have in the industry are to have QSL maintain, as a natural monopoly, by itself, by commercial agreement between growers and millers. There's an alternate view that the milling companies themselves want to market the sugar that they manufacture. Well, that is just simply replacing one monopoly with another. So therefore the same arguments would apply, you know, is that necessarily a good outcome?

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So what Choice in Sugar Marketing does, it facilitates the choice in sugar marketing. I think that's very important. It does provide the competitive tension in sugar marketing to provide for innovation in the future. Another thing that it does is that it will keep milling, or mill marketers, honest because mills are making claims that they can achieve high premiums, but there's no proof. There's been substantial investigation into rice premiums. Well, I'd say that a similar conclusion could be found for the mills, if there's no real additional premiums that could be found in the marketplace. So those claims need to be investigated as well.

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MR LINDWALL: Thank you very much. I think that will have to do, Johnathan, given the time frame.

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MR PAVETTO: Sure.

MR LINDWALL: Thank you. We'd better move on to Julie from Pioneer Canegrowers Organisation Limited. Welcome. If you could just say your names and tell us a bit about the organisation and what you want to say today that'd be great.

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MS ARTIACH: Good morning, Commissioners. Thank you for the opportunity to appear this morning. My name is Julie Artiach, and I'm the manager of Pioneer Canegrowers. This is one of our co-chairmen,

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5 Mr Dean Sgroi and he's a grower, so you'll get the grower's perspective, not just my perspective in this. Our organisation is in a pretty unique position in the respect that it only represents growers who supply sugar cane in the Burdekin to Wilmar Sugar. So I can't speak in relation to any other miller; I can only speak in relation to our interaction with Wilmar Sugar, okay? I've got an opening statement.

MR LINDWALL: Please, yes, yes.

10 **MS ARTIACH:** The opening statement is quite short though. I would prefer to spend our time with you asking us questions in relation to what are the issues that you think you've got. Obviously we've put in a submission. The submission response, specifically to the concerns that we had about the comments that the Commission has made in its draft report.
15 Please feel free to interrogate me in that regard in relation to why we formulated the opinions that we have in relation to that and, literally, to, you know, anything else in relation to it. I will say though that we've limited our response to the Commission's draft report just to the regulation of sugar, okay?

20 **MR LINDWALL:** Would you be willing to talk about other issues as well?

MS ARTIACH: In the - - -
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MR LINDWALL: Well, let's see.

MS ARTIACH: It depends on what the question is. As I said, you've got the grower's perspective sitting right beside me. One of the things we will say, simply because there are so many different cane grower organisations, Pioneer Cane Growers Organisation is not affiliated with Cane Growers Queensland, okay? So we stand alone.
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35 So the dispute between growers and Wilmar Sugar has raged now for some three years and we've attended before various State and Federal Government Committees and Inquiries. The history of this very long journey has been well documented. The history of the Queensland sugar industry and the function of the cane payment formula debunks Wilmar Sugar's cries of alleged injustice and other red herrings, such as
40 interfering with its property rights.

45 It is incumbent upon the Commission to understand how the sugar industry operates. The pool of sugar generated from the growers' cane is split one-third to the miller, two-thirds to the grower, and this is in accordance with the cane payment formula and all of the history

associated with how that cane payment formula came into existence back in about 1912.

5 So GEI Sugar, as the term refers in the Sugar Industry Act now, represents that two-thirds sugar of the private is used to pay growers for their cane. Growers are seeking to influence what they get paid for their cane by choosing who prices and markets that sugar. Growers receive the net revenue from the sale of this two-third slice of the pie. Millers have never had access to this two-third slice of the pie, however access is what
10 Wilmar Sugar has been fighting relentlessly to achieve.

On the other hand, growers are not seeking to interfere with the millers one-third share of the pie or what is now referred to as MEI Sugar. Millers are free to price and market their slice of the pie and influence what they get paid for this share of the sugar.
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The issue then is why is it so objectionable to Wilmar Sugar for growers to have the same right. The issue is this, why is Wilmar Sugar seeking to get access to two-thirds slice of the pie when the reward from the sale of the sugar is to the account of the grower. This is what this dispute is really about. So the Sugar Industry Act (Real Choice in Marketing) Amendment Act merely seeks to prevent millers unilaterally accessing this two-thirds slice of the pie by providing growers with the statutory right to choose the marketer that will determine the sugar value of the GEI Sugar. That sugar value is then pumped back into the cane payment formula and that is how growers get paid for their cane.
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The Sugar Industry Act provides that there can be more than one marketer and fosters competition for marketing GEI Sugar. Wilmar Sugar's actions, on the other hand must be judged against this backdrop. How is the Sugar Industry Act and, in particular obviously, the 2015 amendments anticompetitive? Is it simply because it stops Wilmar Sugar dictating contractual terms that provides growers must use Wilmar Sugar to grow their cane, and growers must use Wilmar Sugar to market the GEI sugar and determine the value of the sugar and the resultant payments growers receive for their cane? How does Wilmar Sugar's construct of the commercial relationship, that is only Wilmar Sugar providing milling and marketing services, result in a fair and reasonable commercial arrangement with such an equity and bargaining power?
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It is also interesting to understand that the concept of grower's choice was actually propositioned by Wilmar Sugar on 23 May 2013, that is Wilmar Sugar propositioned that a grower could choose between QSL and Wilmar Sugar to market GEI sugar as Wilmar Sugar's proposal at that time was within the single best model. So, if it was acceptable to Wilmar
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Sugar in 2013 that growers have a choice of marketer, why is it not acceptable in 2014, 2015, and 2016? So something's changed.

5 So this dispute is really about growers seeking to protect the
fundamental basis upon how they get paid for their cane and to prevent the
miller utilising monopsony powers to dictate commercial terms and
determine the price for their cane. Millers have not historically had that
power. Wilmar Sugar's outrage and its discontent is all about failing to
get what it wants, which is a share of the grower's two-thirds part of the
10 pie.

So section 33B of the Sugar Industry Act is the mechanism giving
effect to grower's choice. Section 33A of the Sugar Industry Act is the
arbitration mechanism. It is this mechanism that gives both parties,
15 millers and growers, the ability to resolve disputes regarding terms and
conditions of the supply contract, but on a level playing field. It balances
the inequity and bargaining power between Wilmar Sugar and growers.

Wilmar Sugar has demonstrated a willingness to exercise its
20 monopsony powers. Wilmar Sugar, throughout 2015 leading up to the
debate to the Sugar Industry (Real Choice in Marketing) Amendment Bill
in December 2015, was resolute. It was not prepared to negotiate a
different construct to the commercial arrangements, namely it would
market all sugar produced at its mills and it was not only entitled but
25 justified in its position. Wilmar Sugar's dogma left growers with no
option but to seek political redress.

Growers do not seek to re-regulate the sugar industry. They are not
seeking a return to a single desk marketing model. Growers are eager for
30 there to be competition for marketing services to ensure that receive
quality service to maximise the return for their cane. In fact, section 33B
of the Sugar Industry Act reflects Wilmar Sugar's original proposition in
2013, that of grower's choice.

35 I'll conclude with the same question as I started, what are Wilmar
Sugar's motivations in seeking to control GEI sugar? For us that is the
real issue, having regard to all the matters referred to in the Commission's
draft recommendations.

40 **MR LINDWALL:** How about I start, thank you, by saying what Wilmar
told us yesterday, and then you can address it? Because they said (a) that
they weren't - they accept the formula and that they only want their
one-third share. They said something like - and I'm not - I haven't got a
transcript here, but that both the growers and the millers are mutually
45 dependent on each other and that they both get the same benefits when the

price is high and less benefit when it's low, which is axiomatic if you have a one-third/two-third share, if the price goes up you get two-thirds of the increased price and they get one-third of the increased price, and vice versa if it goes down. They also said that the reason that they - I'm just saying what they said.

MS ARTIACH: Yes, yes.

MR LINDWALL: They said that the reason that they wanted to market the sugar is because they could achieve a higher price than QSL. So I mean, that was their claim. So, I mean, let's go back to it. It's a monopsony in one sense but not in another sense. A monopsony would be able to exercise a power to extract more of the price for itself and less for you. But if you've got a formula dating back to 1912 which splits it two-thirds/one-third then I can't see that there's any monopsony power in that respect because the price is fixed.

MS ARTIACH: Well I'd probably disagree in the respect that it is the activities that go on determining the sugar value which are varied. When you look at Wilmar Sugar - Wilmar International as a trader it sits in a different context to that of, say, for example Queensland Sugar Limited where QSL's only activity is in relation to returning to either the grower or the miller, whichever sugar we're talking about, the best return.

Wilmar Sugar, however, sits in a completely different position because it will - who it is suggesting that's actually going to be the marketer of the GEI sugar is, in fact, Wilmar Sugar Trading which is a Singaporean company which has its own book, trading book, and a completely different construct to that of something like QSL where all of the return is going back to either the growers or the millers.

So I definitely see that because they have the opportunity then, if they have control of the GEI Sugar to intermingle its relationship, or the relationship of that sugar with Wilmar Sugar Trading and its other sugar, then yes it does actually have that ability to extract a bigger return for itself and not necessarily share it with the growers. We've listened to Wilmar Sugar's rhetoric for the last three years now. To suggest there is transparency, having regard to the fact that Wilmar Sugar International is one of the world's largest global traders in sugar, I just think is fanciful.

MR LINDWALL: So is it fair to say that the Queensland Act which, as I said earlier - the risk for the industry is that parliaments act and they repeal and, you know, they can be fickle and you can't be sure that this act will be around. Who knows? Whatever I say or whatever the Commission says is irrelevant in that respect.

MS ARTIACH: Absolutely.

MR LINDWALL: You know, politics is politics and it changes.

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MS ARTIACH: As we expect.

MR LINDWALL: So it would be better for the industry to have a solution that didn't involve an Act, I would've thought.

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MS ARTIACH: It would, if Wilmar Sugar was prepared to alter its attitude, and it's not.

MR LINDWALL: Do you think it's purely just because of Wilmar and none of the other millers, or is it just because of Wilmar?

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MS ARTIACH: I think, predominantly, it was Wilmar. If we were to go back and have a look at what was transpiring last year leading up to the debate of the bill, absolutely. There were two other millers who were prepared to want to sit and try and negotiate with us. As I said in my statement, Wilmar Sugar's position was absolutely resolute, "It is our sugar we own it, we can do with it as we see fit" and we went, "No, no, that's not the case at all. That is failing to understand the nature and the historical context of the cane payment formula. It is not you can go and do as you see fit. No, it's not".

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MR LINDWALL: We may as well go through what Wilmar said also is that the outcome is that it reduces the incentive to invest and that that will come at a cost to the industry overall because, for example, they said that they wouldn't be able to build a new storage facility which, apparently, would mean that they wouldn't be able to sell in what, March and May next year or - the year rather than - where apparently the prices are normally higher.

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MS ARTIACH: In relation to Wilmar Sugar's MEI sugar it can do whatever it wants to do in 2017 as it can do in 2016. The only difference is Wilmar Sugar seeking to access GEI sugar. So in relation to its investment, it can now actually compete to get access to the GEI sugar under the legislation. The only thing it doesn't get is to absolutely control the whole of the GEI sugar at its will. That is the only difference.

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So how is the difference between its investment today compared to its investment in 2017, dependent upon this legislation? It's not, because if it was prepared to invest in 2016 when it had no access to the GEI sugar, it

actually gets to compete for the GEI sugar in 2017. It produces a spectacular service, marketing service, and out-performs QSL.

5 Growers, like any other small business, are going to respond to the best return they can possibly get. What we don't want to be the case is because there is no competition for milling services, if a grower grows sugar can, which is a huge investment, they are limited to Wilmar Sugar milling their cane which means then if there's no legislation or no competition for marketing services, Wilmar Sugar will market sugar and that's the end of the matter because they cannot move their cane to any other miller.

15 That was one of the things that I found so objectionable about the QPC's report because it looked at the fact that because there had been a dispute between the growers with MSF in the Tablelands, they actually moved sugar from the Tablelands to Mossman. But the Commission didn't have a look at the cost, the cost for something like \$18 a ton of cane to move that cane 120 kilometres. So for the QPC to make this absolutely startling comment that there's competition amongst mill areas, was farcical. It was not.

25 The only reason why it happened in that particular occasion was because a stoush occurred and obviously Mackay Sugar thought there was some financial benefit for it getting access to that sugar. But that is a one off occasion. It's not something where the growers automatically have this right to choose a different miller. To me, that was the biggest fault of the QPC was that there was no financial cost consideration at all in making its recommendation which I thought was just startling.

30 **MR LINDWALL:** So this mutual antipathy is not optimal, as I think you would agree with that.

MS ARTIACH: Absolutely.

35 **MR LINDWALL:** What if Wilmar decides that it's had enough and it will leave the market altogether? What do you think would happen then?

MS ARTIACH: You mean as far as milling services or as far as marketing services?

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MR LINDWALL: Decides it wants to sell up and take its capital - - -

MS ARTIACH: If it sells up, we deal with the miller who buys the asset.

MR LINDWALL: Well, who would buy the asset? I mean, is there a good market for milling assets? Would growers buy the milling asset for example?

5 **MS ARTIACH:** Look that's probably a matter that I couldn't really comment upon. But I would assume that if Wilmar Sugar saw value in purchasing the assets, then obviously some other company would also be prepared to see value. You can see from what exists in Australia that there are quite a few - - -

10 **MR LINDWALL:** I heard that some of the milling assets - and I didn't hear this directly from Wilmar, but I must've heard it from somewhere else and I don't think it was in a hearing - but I heard that some of the milling assets were extremely run down, they hadn't been maintained very well and they were basically uneconomic and a lot of maintenance needed to bring them back to capacity to be a good mill. So it's very important to have a mill operator that runs properly and obviously maintains it well, otherwise you get these type of issues.

15 **MS ARTIACH:** Well I doubt that Wilmar Sugar is prepared to sell it for zero, so I assume that yes they're - you know, having listened to their rhetoric that they've spent \$1.75 billion, I doubt they're just going to walk away. That would be a huge loss. I would assume that Wilmar International, being Wilmar International would not make such a business decision, or I would find it extremely interesting as to what their shareholders would say if they've built up \$1.75 billion worth of assets.

20 **MR LINDWALL:** All businesses have to take into account what they've done in the past and they have to take into account the future. There's a sunk cost, what's been spent. I mean, if a business thinks that it's not optimal to continue because of whatever, then it will decide to exit despite the fact that it might've spent a billion and a-half in the past. How it exits, that's another issue.

25 **MR SGROI:** Your question's speculative, but anyway at the time there was another entity that was looking at buying that business.

30 **MS ARTIACH:** Wilmar Sugar far outbid it which is the reason why it ended up purchasing.

35 **MR LINDWALL:** Okay. Yes, yes, yes, yes.

40 **MR SGROI:** So I could only assume that yes there would be - - -

45 **MS ARTIACH:** Interest.

MR SGROI: - - - others interested.

5 **MS ARTIACH:** I'd find it very unusual that there would not be - - -

MR LINDWALL: Is this what you would like to happen is Wilmar to exit the market?

10 **MS ARTIACH:** No, no, that - - -

MR SGROI: I'd like them to change their attitude a bit actually.

15 **MS ARTIACH:** Yes. It's more how they deal with the growers that is our concern, rather than Wilmar itself.

MR LINDWALL: It hasn't reached the point where it's impossible for it to change its attitude? Because I do get a sense of heat from both sides. You know, people get into - - -

20 **MS ARTIACH:** Our position has been - - -

MR LINDWALL: Let me put a marriage analogy here.

25 **MS ARTIACH:** I understand.

MR LINDWALL: People often shoot both themselves in the foot in the case of a divorce and it can get very nasty.

30 **MS ARTIACH:** Look, all I can say is that - - -

MR LINDWALL: Lawyers are the ones that benefit in those circumstances.

35 **MS ARTIACH:** I think all I can say is this, is that Wilmar Sugar's approach at the moment is more that of bullying in relation to "We want what we want". Where we see it ended up at the moment is there's not a lot of power on the growers' side to otherwise ameliorate that because there's no competition for milling services. If the grower could choose a different miller, a whole different kettle of fish. If they didn't like what one miller was offering, you would have the benefit of negotiating with an alternate miller. We don't have that. We're never going to have that in the Burdekin because - don't think we've not tried, we have. We've made approaches to see whether or not someone would build another mill.

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5 So in that regard there is - Wilmar Sugar has the advantage of having this monopoly power that, at the moment they've demonstrated they are prepared to utilise. There is so much history over the last three years to take us to where we've got now, that it is difficult to articulate the reasons why I have that opinion. I suppose, from a lawyer's perspective which is my perspective, I don't think in 28 years of litigation that I've ever sat down at a table and operated on the basis of I'm going to get everything that I want.

10 So our attitude when we have sat down with Wilmar Sugar is "Look we want a fair and reasonable contract". We are not sitting here saying to Wilmar Sugar, "We want everything or nothing". It has never been our attitude to do that. The alternate thought, or I should say in the alternate, Wilmar Sugar hasn't demonstrated that same attitude to us. I'm going to be quite direct, in the contracts that Wilmar Sugar have propositioned for 15 example now for 2017, they've altered quite significantly some of the contractual terms in relation to the milling operation. So nothing to do with marketing.

20 So if the power in the relationship in the existing 2016 contracts is here, Wilmar Sugar has pushed it back to over here. So now we're even fighting to get the milling operation contractual terms back to where we currently are. So, you know, when you see a company negotiating in that way, to me it is not them trying to achieve a fair and balanced outcome; it 25 is, "Well, we're going to push and see how far you're prepared to go because this is now what we want". As I said, those clauses have got absolutely nothing to do with marketing, but that's the circumstance that we now find ourselves in.

30 So if we had competition for milling services, I don't think that you would see that Wilmar Sugar would be prepared to exercise that power to the extent that we see them doing.

35 **MR LINDWALL:** I asked this question earlier and you may not have been here, but another alternative is to treat Wilmar as a contractor and you just contract them to do a job, i.e. milling - - -

MS ARTIACH: Toll crushing, yes.

MR LINDWALL: - - - and perhaps use the ACCC under part 3A as an access regime. Have you thought of doing that?

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MS ARTIACH: If we were to take that line of approach, I think, the difficulty that we've got with Wilmar Sugar will be multiplied tenfold. They are so adamant that if we wanted toll crushing that the cost that they would seek to impose on the toll crushing would be such that it would be exorbitant.

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MR LINDWALL: Yes, but the ACCC has a right under the Competition Consumer Act to impose an access regime and set the price, irrespective of what Wilmar says. I mean that is an option surely.

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MR SGROI: The biggest problem we've got at the moment is that - is time, really. I mean, also that basically 100 per cent of the crop for 2017 is in the ground now. The investment's been made by the grower. The grower cannot afford to send that cane to a mill next year.

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MR LINDWALL: Yes, I do know it's a five year investment.

MR SGROI: As well as a part Queensland Sugar Act we must have a CSA with the miller, and so that basically pushes us to about June next year.

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MR LINDWALL: When? June next year, all right, yes.

MR SGROI: So we have that as a backstop. The miller is aware of that and using that as the lever.

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MR LINDWALL: Well, maybe you should - I mean it's June next year, you still might be able to get an access regime by the ACCC. I mean, you should explore the possibility surely.

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MR SGROI: We certainly don't discount any possibility or opportunity.

MR LINDWALL: Just thinking of another option. Now, could I ask - - -

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MS ARTIACH: I think that - - -

MR LINDWALL: Yes?

MS ARTIACH: As I said, the growers aren't seeking to become more adversarial with Wilmar. Quite seriously, if we took that line of approach,

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5 if we thought Wilmar was being difficult to date, we would see Wilmar Sugar's object multiple tenfold. I think that there would be no ifs or buts about that to speak of. So every time we ventured into that toll crushing type arrangement, their response - if we think they're being difficult now, its magnitude by about a factor of 10.

MR LINDWALL: Could I ask about the - finally, really, the split, the formula that was created in 1912 if I'm not mistaken?

10 **MS ARTIACH:** Yes.

15 **MR LINDWALL:** That's amazing that a - from an outsider like me, who doesn't know much about sugar marketing, that a formula to split between two-thirds and one-thirds has persisted for 104 years. It's essentially arbitrary, isn't it? Because as sugar processing and as technology changes in terms of growing cane, one could argue that the economic interests of both parties change over time, one may increase, one may decrease and you've locked it in stone 104 years ago.

20 **MS ARTIACH:** The formula was devised in such a way so that there was incentive for improvement on both parties. What I mean by that is, the formula goes 0.009 times the sugar value - - -

25 **MR LINDWALL:** The first time I've seen it is in your submission.

30 **MS ARTIACH:** Yes, in brackets, times the grower's relative CCS minus 4 plus a constant, okay? Now the constant - hang on, I'll go back to the beginning. The 0.009 is based upon the one-third / two-third split. So it adds both together, what was the average CCS and the miller's ability to extract sugar and - sorry - to extract sucrose and create crystal sugar. So if the milling proves milling operations, the 0.009 is referred to as the coefficient of work.

35 At the moment, we understand that because milling operations have improved, what they now extract out of a stick of sugar cane is more like 103 per cent coefficient of work rather than the 90 per cent, which is what the basis of the formula was. So as the miller improves its productivity it's getting that extra benefit because they only pay the grower based on that 90 per cent approach.

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45 The CCS works on the basis of, if the grower improves its productivity, in relation to both tonnes and CCS, the grower gets the benefit of that. Wilmar Sugar takes the first four units of CCS, so that's extracted straight off, but any improvement on the grower's side, as far as tonnes are concerned, and CCS, is to the reward of the grower. So the

formula, therefore, works, in the respect that as circumstances are changing it's encouraging investment and improvement by both parties.

5 Now, the constant was added, I think about in the 70s and 80s, if my memory serves me correctly, and it's changed a little bit over time, to add to the fact that the coefficient of work has improved so much more than what productivity on the grower's side has improved. Because productivity is a function of not only farm practices but also the varieties of cane.

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MR LINDWALL: And weather.

MS ARTIACH: And weather. So all of those types of things. So the constant that's being added is to balance that one-third, to take it back more to that one-third/two-third approach. So the cane payment formula, over time, does, in fact, respond to variations that occur and encourages improvement.

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MR LINDWALL: Who decides on the, in this case, 0.662 constant?

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MS ARTIACH: That was by negotiation with the millers.

MR LINDWALL: So this is an agreement you do each year?

25 **MS ARTIACH:** Well, it hasn't changed probably now for about 10 years but the way the formula is structured is certainly the case that, at least in relation to the constant, the other part of the formula hasn't changed since 1912, there was no constant in 1912 when the formula was devised. As I said, the constant came into existence to balance out that one-third/two-third share.

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35 So this is why we say that GEO sugar that Wilmar Sugar is trying so hard to get access to, why? Because the revenue generated from that, under the cane payment formula, is to the account of the grower. Where is Wilmar Sugar losing? If Wilmar Sugar is in a position where it can now compete to access that GEO sugar then it's going to achieve what it wants to achieve, but it should not have the right to win the argument, based on it being a monopoly miller. That should not be the case and the competition legislation exists for a reason, or the national competition policy exists for a reason.

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45 One comment that I want to make, though, finally, is I had a look at the submission that the ACCC put in to the draft report of the Commission and I noted, with interest, that they were silent, in relation to 11.1 and 11.2. Made no comment at all. What inference - is it reasonable them for

us to draw an inference that it did not think that the legislation offends the competition legislation?

5 **MR LINDWALL:** No, I don't think you can draw that inference.

MS ARTIACH: Well, I'm probably going to be a little bit different in saying, yes, I do believe you can make that inference because of the Commission's role. It's not as if - sorry, because of the ACCC's role. The ACCC is well aware of this issue. The Queensland government, the night the legislation passed, sent a letter to the ACCC saying, "We think the legislation offends the competition legislation." So if that was the attitude of the ACCC, why was it silent, in relation to its response to the draft report?

15 **MR LINDWALL:** I think it stood to be silent in this respect because it would want to go through the normal process and make a determination separate, rather than through a submission. That's my view, anyway.

20 **MS ARTIACH:** It had the opportunity to respond. It didn't have to respond in totality but it could have put in a comment and it chose not to do so.

MR LINDWALL: I can't speak for the ACCC.

25 **MS ARTIACH:** Well, I must admit, and I purposely looked at the ACCC's submission, particularly for that point of view, thinking, "Well, what was the ACCC's position in relation to the Commission's draft recommendation?" To me it was quite startling that it had not made a comment at all, in relation to the draft recommendation.

30 **MR LINDWALL:** Thank you for explaining the formula. I don't think it's so unusual things to last such long periods of time. I mean, in Bordeaux the 1855 classification is still used for dividing things into first growth, second growth, third growth, fourth growth and fifth growth, and it gets changed very rarely. Thank you for that.

35 **MS ARTIACH:** That's okay. As I said, it is really a nature of understanding how that formula works to really cast a light on what Wilmar Sugar is seeking to do. The formula functions for a reason and it divvies up the proceeds. Well, why does Wilmar Sugar want more access to something that it doesn't get a benefit for the financial reward now? There's only one pie. There's only so much to go around. Where is it seeking to push the boundaries of why it is fighting to desperately to get access to the sugar.

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MR LINDWALL: Thank you very much. We've got to move on to our next people. So now it's Cane Growers Burdekin, with Deborah Burden. If you could all introduce yourselves, that would be perfect.

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MR MARANO: Thank you, Paul, my name is Phillip Marano, I'm the chairman of Cane Growers Burdekin.

MS BURDEN: Deborah Burden, general manager of Cane Growers Burdekin.

MR SMITH: Wayne Smith, manager of member services, Cane Growers Burdekin.

MR LINDWALL: Thank you.

MS BURDEN: Commissioner, thank you very much for the opportunity to speak to our submission, we appreciate the opportunity. We have read the report in full but we, like other cane grower groups, really only want to talk about your draft recommendation 11.2 and to say that we strongly, strongly feel that that recommendation should be removed from the report.

Just to provide a little bit of an overview, Cane Growers Burdekin is a very small, not for profit, member owned organisation, we've got a voluntary membership. As a collective we offer the region's cane farmers the CBL Cane Supply Agreement and we individually represent approximately 30 per cent of the Burdekin Cane Farmers, which equates to about 2.5 million tonnes.

The Burdekin's economy has a major reliance on the cane industry. The average annual crop is about 8 million tonnes, which equates to about \$280-320 million of revenue for our small economy, and the industry is by far the largest employer. To provide an example of the region's reliance on the cane industry, cane farmers pay close to half of the council shire's general rates.

We're part of the cane growers family and we work closely with our fellow cane grower groups, based in Herbert River, Proserpine and Plain Creek. Between our four individual companies we represent over 10 million tonnes of cane and that equates to about 70 per cent of Wilmar's supply and all of our groups can only supply to Wilmar mills.

I know you've heard this before, but Burdekin cane farmers have no choice but we have to contract with Wilmar to have their cane crushed. So just thinking about the whole process very simply, the farmers grow

the crop, they harvest the crop and they transfer the crop to the designated delivery point. As soon as the cane is delivered, the title to the cane transfers to Wilmar. Wilmar's contractual role is then to manufacture the cane into raw sugar and transport the raw sugar to the Townsville port.

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This is important, as soon as that raw sugar is delivered the title to the raw sugar transfers to the marketing company, which is currently QSL and that's a free in store process. The fact is that Wilmar currently holds title to that grower economic interest raw sugar for around 24 hours.

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It's also important to realise that the price the growers are paid for their cane is directly related to the market value of the sugar. To be clear, the price the growers are paid for the cane is about two-thirds of the price received for the raw sugar. Growers wear the greatest risk and therefore it's only fair and reasonable that growers have the right to say who markets the raw sugar that impacts the price that they are paid for their cane.

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On 3 April 2014 Wilmar attempted to take control of marketing of all of the raw sugar, without growers' agreement. Wilmar put forward what we call their no choice, no QSL marketing proposal and gave notice to exit QSL. They subsequently gave notice to cancel the long-standing Cane Growers Burdekin CSA. Cane Grower Burdekin growers voted unanimously that they condemned the Wilmar's no choice, no QSL proposal, as it takes away their rights to utilise QSL.

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Now, QSL is a successful, Australian, not for profit, non-taxable, industry owned marketing company. Many of our growers are well over the age of 55 and QSL has faithfully served their needs for many, many, many decades.

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Wilmar's action led to over 18 months of dispute and there was no resolution that could be reached. It was only resolved in December 2015 by the changes made to the sugar industry Real Choice in Marketing Amendment Act. It was not going to be resolved without that change.

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Since January of this year we have been endeavouring to negotiate a cane supply agreement with Wilmar for 2017 onwards. It would be fair to say that this negotiation has been extremely difficult, even with those amendments to the Act. As although Wilmar have stated that they will comply with the new requirements to offer growers choice in marketing, the fact is that right now there is no choice, as Wilmar's negotiation position has been such that it's unacceptable to QSL and we understand that there are no other marketers indicating any interest.

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5 The major issue relates to Wilmar's attempt to completely change the marketing process from FIS to free on board. This small change will mean that Wilmar will go from holding title to the grower economic interest raw sugar from the maximum of 24 hours to an average of 3500 hours, so 145 days.

10 What we really wanted to talk about is that what would happen if the Commission's recommendation to the Queensland government is actually enacted? So what would happen if those amendments to the sugar industry real choice in marketing, if those amendments were actually repealed? This is our view of what would actually happen.

15 So our negotiation position with Wilmar for a CSA from 2017 onwards would be dramatically weakened, and that would be due to the loss of the arbitration clause. Secondly, we think that what would happen would be the potential removal of market choice and what would that actually mean? In our view the cane farmers will be stripped of their rights to utilise QSL, and again they'll be stripped of their rights to use an Australian, not for profit, non-taxable, industry owned, niche marketing company that's been the heart of the sugar marketing system, a system that's faithfully served the needs of the Queensland cane industry for over 20 100 years, they'll be stripped of that right.

25 Secondly, we feel that the cane farmers may actually receive increased risk and lower return. The reason we say that is the GEO raw sugar would most likely be marketed by Wilmar's chosen marketer, who is a non-Australian, for profit, privately owned, taxable, non-niche marketing company and this could result in farmers facing increased risk and also there's the reduced security of payment.

30 Now, although Wilmar have been very vocal and you've heard numerous people speak about it today and, I assume, yesterday, they were very vocal that their marketing option is superior to QSL. They spoke about that they're the Picasso of marketing, they're a big canvas. Our view is that they must have kicked over a can of red paint recently because 35 Wilmar's results have been bloody woeful.

40 You've already seen the results. QSL, when they finally put together a pool it's not even fully comparable to what QSL were doing because they have 100 per cent discretion where QSL only had 30 per cent discretion. But even in that basis, they couldn't match QSL. They were still \$30 per tonne of raw sugar behind. The early indications indicate, for 2016, that they're going to be \$70 per tonne of raw sugar behind. So if 45 they're saying they're going to perform better, they must be holding themselves back.

5 Also of interest we see that Wilmar International has just released their second quarterly results and they state that sugar has made a loss of US \$78 million, which was double the loss for the same time the previous year, which is \$37 million. They put the comment down to, “Apparently rallies in sugar futures caught out Wilmar’s marketing team.” I would hate for them to have been marketing the grower economic interest sugar when they were caught out.

10 The final thing that we talk about is that if that legislation is repealed grower’s confidence in the industry will be further damaged. Their willingness to employ and to invest in the cane industry will be constrained. We’ve heard a lot about the risk that the mill’s interest investment in the future will be constrained, well, the growers’ current investment is \$11.5 billion. Wilmar talk about their \$2 billion investment, growers investment is \$11.5 billion, estimate.

20 I just wanted to take the opportunity, and we will go on and address some other particular areas from the report, but I did want to take the opportunity to respond to some comments that Wilmar have made in their submissions and there’s two areas that we’d like to respond to. I’ll respond to one and Phil, our chairman, will respond to the other.

25 The first area that I’d like to respond to is on page 4, it’s example 3. The reason that we want to respond to - this example is about non-sugar revenue, and Wilmar is saying that molasses and the co-generation underpins the mill’s business viability. They go on to say that, I guess they were scared, by the look of it, but on 5 May a grower collective lodged a claim, the claim, against Wilmar for two-thirds of the profits of all non-raw sugar products produced from cane. They say this claim is understood to be in belief that the Act has established, in law, a precedent for grower economic interest, being equated to ownership, that continues throughout the manufacturing process to the finished raw sugar product. Growers now wish to apply this precedent to capture the other two-thirds share of profits from all sugar and non-sugar products produced from cane.

40 Now, when you read what they’ve got written there, you’d have to say it’s well written and it’s a good example and that the Commission, perhaps, could be convinced that due to this comment and this example that Wilmar will not invest further in renewable energy and other non-sugar product divisions and that that could be a reason to have the Act repealed. The reason I raise this is that we are that collective and we wanted to respond because what Wilmar have cleverly put there is not correct. Clearly not correct, in our view.

5 First of all, we did not raise a claim. What we, as a tiny little company that Wilmar indicate have scared them into this, what we put forward was a discussion point. It was a discussion point because on 5 May this year Wilmar were refusing to enter into negotiations. So it was an initial discussion point.

10 Now, we did not put that discussion point forward that we believe that the Act gave us some power and it would set a precedent, we did not do that at all. We put that forward because our view was that we needed to start the discussion because we feel that the cane supply agreement that's negotiated at this point could well be in place for the next 10 years. Our concern was that cane could be used for many different product in the next 15 10 years and, at the moment, growers are only paid for raw sugar. So what happens if, say, plastics were then used, or bio-products, biofuel? What would happen then? The growers would receive no benefits. We were putting forward a discussion point to say that there should be something in the cane supply agreement that ensured that growers received a benefit for that.

20 Now, right now the growers are paid for raw sugar, they also receive a small payment for molasses. You'll see I have a copy here of the discussion term sheet that we gave to Wilmar, which I'll hand over, and you'll see the heading of that was that what we were looking for was a fair share, fair, fair share of non-raw sugar products produced from cane.

30 I just wanted to cover what's happened since the Act was actually put in place in this area. So the first thing that's happened is that Wilmar have endeavoured to remove everything they can from the cane supply agreement. Their basis of doing that is to remove growers' benefit of collective bargaining. They've removed the molasses clause from the cane supply agreement. They've put forward good arguments for it, but they've removed that from there. What that actually means is that - they're saying, "Why are you worried about that? All of the current 35 benefits are in there, nothing's been lost, why are you worried about that?" Well, the fact of the matter is that there's no collective bargaining anymore on molasses and that they can change those conditions going forward.

40 The other fact of the matter is that when there's another product that comes forward that product will not be collectively bargained so you'll have a small grower, and in the Burdekin over 50 per cent of the growers product crops of less than 10,000 tones. So the ability for any of those growers to be able to negotiate with Wilmar on what they should actually 45 be paid for these additional products is zero.

5 So we wanted to raise that because I think that's just one of the clever examples of Wilmar and the Commission could easily be convinced and say, "Wow, yes, that's a real risk and the Act should be repealed." I'll just hand over to Phil, who's going to speak about the other area that we had concerns with.

10 **MR MARANO:** The other area that we have concern about is that Wilmar has come out and there's a bit of a press statement, and it's also in the submission that they gave to the Productivity Commission, how they are no longer going forward with a \$75 million investment into a sugar terminal. This is an investment that we, as growers, knew nothing about, and you'd think, being one of their main partners in the industry that they would consult with us before wanting to spend \$75 million on a sugar terminal.

20 All the sugar terminals currently are industry owned, which means they are owned by growers and millers and it would appear that Wilmar was simply going to do what's happened in the grain industry, build a terminal that wasn't needed and they were just going to add cost to the industry, be over capitalised in terminals and it was probably a bad investment anyway. So to say that they've stopped building, stopped investment on what we see as a completely unnecessary terminal is a bit cute from Wilmar. It was probably never going to happen because it wasn't needed and their claims that they'd be able to store sugar and get a higher price in different months is just ridiculous, because we can already store significant of sugars and capture those high prices.

30 If you look at QSL and their pricing structure and their marketing structure, they have nearly always outperformed the world benchmark in pricing, so it was just uncalled for. So that's another claim that they've made that I think is just absolutely ridiculous.

35 So I will continue and specific response to some of the matters raised in the draft report, under the heading of Regulation of Sugar Market in Queensland. I guess the word "re-regulation", we strongly object to the use of the word "re-regulation" and we are of the view that the amendments to the Sugar Industry Act do not re-regulate the industry. All the amendments have done is endeavoured to stop growers being stripped of their rights to choose who their marketer is and we actually believe that it's actually adding competition into the industry. You've heard many people speak about that so I don't think I need to go into that too much further.

Also we have some issues where they talked about the transparency and the transparency being offered by Wilmar. The issue has never been if Wilmar marketed the sugar would they be transparent or not, the issue has always been, they could be the most transparent marketing company in the world and if they're doing a terrible job what can growers do about it? Absolutely nothing, because there would be no choice.

So all we're really asking for and all we believe that the amendments to the Sugar Industry Act has done is to actually give growers choice, it's actually delivered competition into the marketing of sugar and it's actually helped the balance in the relationship between Wilmar and the growers. Many speakers already this morning have spoken about that and for me to continue on about that will just be reploughing the field. Deborah?

MS BURDEN: So we're going to do tag team. The next area we wanted to speak about is cost impacts. Wilmar have regularly been in the market talking about how the Act has actually imposed all these additional costs on them. They've had to draft contracts for 2017 and the costs being incurred by them. But really I think little thought has really been given to the resources and costs that are incurred by growers and their representatives, since 2013 when Wilmar initiated this nightmare.

So we're a very small company, as we've already said, with very, very limited resources. The time that's been spent on the marketing issue, since 2013, has been a huge percentage of our operational costs and a huge impact on our business.

The other side of it, from growers, growers have been unable to take advantage of very attractive forward pricing prices for 2017 onwards, as they've been unable to forward price, due to Wilmar's actions. That's due to Wilmar's actions.

There's also some commentary about market failure. We have been really surprised and disappointed that anybody could conclude that there has not been a case for market failure. If you think about what actually happened, Australia has had a market process in place that's benefited growers and millers for over 100 years. We understand that this marketing process is the envy of other countries throughout the world. There's already been discussion today about the memorandum of understanding that was signed by the milling companies and by the growers and by the government and that memorandum of understanding was in place when Wilmar purchased Sucrogen. They were well aware of the conditions that the Australian industry operated under.

5 Wilmar International, fresh to Australia, come to growers and said they want to completely smash this process. Growers clearly shouted out, “No. No, it’s not to happen.” Our region and others voted, unanimously, to condemn Wilmar’s proposal. Even though it is growers who have 66
10 per cent of the risk, Wilmar International ignored growers’ wishes and continued with their action. A survey of growers was undertaken and I won’t read out the response, but it was like over 95 per cent of growers said no, and it’s listed there in our submission. So we just can’t see how market failure couldn’t be put in place. I’ll just pass to Phil, who is going to speak about the cane price formula.

MR MARANO: I don’t think there’s too much more I can add about the cane price formula. Julie’s done a really good job of explaining it to you.

15 **MR LINDWALL:** Yes, it’s very clear, yes.

MR MARANO: Very clear, we agree with it. The only point I would make is that - and just reinforce what Julie said, the mill actually has no interest in the growers economic interest sugar and they’ve even stated, in
20 our negotiations which have just freshly started, that they have no interest in the growers economic interest sugar, they will receive no revenue from it. So I can’t understand why they’re so upset. They get their share through the cane price formula, it’s theirs to do with as they wish, even though I personally believe that, as an industry, we would be better off
25 staying with the single desk marketer, which was QSL, which served the industry. That’s just my personal view but also I understand that the miller should have the right, just as I believe the grower should have the right, to determine their own economic destiny, and that’s all we’re asking. So that’s about all I can say about the sugar cane price rules.

30 **MS BURDEN:** Just moving on to collective bargaining - - -

MR LINDWALL: You don’t have too much more time.

35 **MS BURDEN:** Actually we might just skip that one, it’s probably not as important. Wayne, do you want to talk about investment?

MR SMITH: Do you want to skip forward then, Paul, to investment and innovation and regarding the comments that the amendments of the Act
40 will constrain Wilmar’s willingness to invest in the industry? We point out that the investment and innovation in areas such as co-generation, that’s for electricity, and biofuel, has been to the sole financial benefit of the milling companies. To our knowledge, growers have received no benefit from these innovations and our lack of bargaining power stopped
45 us from obtaining a flow through of this benefit to growers.

5 The forward pricing innovation was only implemented by CSR, who was the then owner of Sucrogen, after a significant push from growers to implement forward pricing. The growers were charged a fee for each and every transaction to cover the cost of developing this system and that fee is still being charged today, even though the system must be well and truly paid for by now.

10 Any suggestions about mill improvements is questionable in our region, as detailed in the tables provided to you. You can see the best performance in 10 years, from 2002 to 2012 and then compared to the performance of the mills last year, this is looking at crush rate and what we call mill reliability, have basically stayed the same or deteriorated in most cases. We look at last year as a good year because it was what we call a dry crush, so that was a good run through, but when you compare it to the best out of the 10 years, taken from 2002 to 2012, it is still below par.

20 **MS BURDEN:** We'll finish off there. We're well aware that the Commission is probably sick and tired of hearing about this particular issue. The reason you're hearing so much about it - - -

25 **MR LINDWALL:** I'll be hearing about a totally different issue in Tasmania next week, I can tell you.

30 **MS BURDEN:** The reason you're hearing so much about it is because growers are so passionate about this area and it has the potential to have such a huge impact. The reason we're here is to fight for this legislation to stay as it is.

35 **MR LINDWALL:** Yes.

40 **MS BURDEN:** It's probably not even strong enough as it needs to be but at least what's there, we need to retain. That's us.

45 **MR MARANO:** Just me in closing. Perhaps you have some questions, but before we do close, I'd just like to say that at the moment the price of sugar and the price growers will receive for their cane if we can get it all off this year, is at historically high prices. Growers should be optimistic. They should be planning for the future. They should be happy, but instead, because of Wilmar's actions in the Burdekin region, all you've got is anger and despair. It's just terrible. The relationship between miller and grower is at the lowest point in the history of the Queensland sugar industry and that's easy to say. I can say that with hand on heart. It is and it's all because of Wilmar's actions, because I think, as Alf might have

said earlier on - he was one of the first to speak - they have absolutely no respect for growers. They just want growers to do what they're told and to stay in line.

5 **MR LINDWALL:** Thank you. We don't have much time so I'll ask a couple of very quick questions. One, given the act is now in place but Wilmar still hasn't agreed anything with you, how does this all pan out. Assume the Act stays in place, what will happen? What will Wilmar ultimately do, do you expect?

10 **MS BURDEN:** The actual negotiation process for our collective is really only in the last month getting underway because Wilmar refused to negotiate until 30 June. Then, of course, they've got a bottleneck because suddenly all of the collectives are ready to negotiate and they haven't got
15 enough people to negotiate. The actual negotiation process is just underway. The biggest bottleneck is going to be with the on-supply agreement between Wilmar and QSL, because that has no protection in the legislation and Wilmar are taking a hard line on the FOB and we understand that QSL are saying a hard line to saying they need FIS. So
20 that will be a very, very difficult area of the whole process. Will something be negotiated? Yes. I think it will have to be. I think you've just heard Dean say that the crop's in the ground. It's going to have to be crushed, but it will be difficult. Will we rely on the arbitration clause? That's not our preferred option.

25 **MR MARANO:** The legislation was never our preferred option and Wilmar was well aware of that. We told Wilmar from the start legislation is not what we want. What we want is a miller to actually talk to us and respect growers' wishes.

30 **MS BURDEN:** Certainly our negotiation position is that we're there to look at growing the pie more for everyone. We're not there to try and take anything from Wilmar. Unfortunately I think the other side of the negotiation table doesn't have that view.

35 **MR LINDWALL:** What percentage is Wilmar's milling capacity in Queensland approximately?

40 **MR MARANO:** About 60, 60 per cent of Queensland industry.

MR LINDWALL: If Wilmar had its way, 60 per cent of Queensland sugar would get marketed through Wilmar.

45 **MR MARANO:** I can only speculate what Wilmar's intentions are but I believe and this is my belief so don't take me to Court over these

comments, I believe Wilmar's intention is to completely take over the marketing of all Australian sugar. That's what they came here to do and they were a bit shocked when they found it wasn't going to be as easy as they thought.

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MR LINDWALL: Okay. Well that's a good time to conclude then. Thank you.

MR SMITH: That may not be as high as 60. I think it's probably about 15 million out of 30-odd million.

MR LINDWALL: Okay, thanks very much for your time.

MR SMITH: Thank you.

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MR LINDWALL: I hope we get a clap at the end. Could we now get Steven Calcagno, I think. Is that right? And Barry Stubbs from Canegrowers Cairns. Welcome. Just say your name and tell us a bit about Canegrowers Cairns and any statements you'd like to make.

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MR CALCAGNO: I'm Steven Calcagno. I'm the chairman of Cairns Regional Canegrowers, but more importantly, I'm a cane farmer, cane grower.

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MR LINDWALL: And Barry?

MR STUBBS: I'm Barry Stubbs. I'm a director of Cairns Regional Canegrowers and a farmer.

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MR CALCAGNO: Just to give you a bit of background, the submission was by a joint submission from Canegrowers Cairns region and Canegrowers Innisfail, so I can speak on their behalf as well. Canegrowers Cairns region and Canegrowers Innisfail, we represent 90 per cent of the cane growers in the northern region of Queensland. That spans an area from the northern beaches of Cairns down to Silkwood in the south and growers supply South Johnstone Sugar Mill and Mulgrave Sugar Mill in the north.

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Our sugar farmers, due to the location, we can only supply MSF Sugar, which is owned by Mitr Phol, and then that's the basis of it. Our submission, what we want to address, of course, is the sugar marketing, which I'd say you'd never buy a teaspoon of sugar again after this inquiry, you would have heard enough, but we want to give a different angle to it. Historically, we've negotiated a Cane Supplier Agreement and choice in marketing. I'll go into that. I'm not going to go back into too much

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history, but I've got to go back. I'll cut to the chase at the end, just to let everyone know the sky hasn't fallen in and there's a lot of confidence back in the industry. That's what the end result is going to be when I tell you.

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Just to give you a bit of history, prior to the amendments in the Sugar Industry Act, the milling company, MSF, they were one of the three mills who did announce their intention to withdraw from QSL, removing any opportunity of growers' choice. Of course, you know the fight that went on, et cetera, and then the legislation got up. To cut to the chase, to give MSF credit because they did lose a mill area at the Tableland over it and they had to resupply it with new land, et cetera, so it cost them a lot of money, they took the decision that, "You know what. Let's work with the growers and we'll embrace the legislation, grower choice, and let's work on a cane supply contract".

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We finished the cane supply contract. They negotiated a contract on supply agreement with QSL and MSF. We've agreed between us and the mills; our cane supply contract is bedded down. Actually we rolled it out yesterday. Growers came in and signed cane supply contracts and in a pricing agreement they ticked the box who they wanted to market their sugar. The two that have been negotiated because you've got to realise a marketer has to have an on-supply agreement with the mill. Basically, the two marketers are MSF Sugar and QSL, that's it.

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Growers came in yesterday and if that's not competition, I was sitting there yesterday watching growers come in - I was there because if they had anything to ask about the contract, the fundamentals of the contract - and they were there ticking their boxes, exercising choice, whether they wanted to go with QSL or MSF Sugar. They can even nominate half their sugar, their economic interest, to go to QSL or half to go to MSF or 100 to either. So there's great flexibility and choice. Like I say, after the initial fighting, MSF probably you could say has broken ranks and they've embraced it and they think there's more benefit - let's get the cane supply in and let's address other more serious issues within the industry, within our region sorry.

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As far as that, like when you read the draft report, especially how the Queensland Productivity Commission wrote it, where they say about competition et cetera, well we've got MSF over the last four weeks, MSF marketing has been going to see growers, rolling out their products. QSL have been very active coming to roll out their contracts. So what you've got there I think is a good spirit of cooperation. One's not saying anything bad about the other. They're just providing growers with information and at the end it's the growers' choice of where they want to market.

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5 Our organisations, we are very careful, we're not financial advisers. We don't tell a grower to go one way or the other. It is, at the end, the growers' decision where they market their grower economic interest or sugar.

MR LINDWALL: They've sorted that out now or it's still ongoing?

10 **MR CALCAGNO:** Growers have got decisions to make. They don't have to sign it today but a lot did exercise their option yesterday. Others have to take contracts away because there's partners involved and they've all got to sign. It was pleasing too - well, you take it on face value and I trust people. I'm an Italian. I trust them until they wrong me. Like Barry and Hal Cooke, their senior members, they say that they're of the opinion
15 now that growers will always have grower choice. That's one issue, I'd like to think.

20 Just a few issues, if I could just talk in parallel with how the Productivity Commission got to their resolution at the end. If I could just talk in parallel and what's happened in our area, which I think it might sound a bit mundane but it should clear up a few facts. On page 421.

MR LINDWALL: 421, right.

25 **MR CALCAGNO:** I'll read it out. They say that the marketing is likely to discourage investment in milling, resulting in inefficiencies in mill capacity which will in turn lead to reduced productivity in sugar cane growing. Now that statement I don't think is accurate because quite
30 frankly, MSF Sugar, they've embraced market choice. The investment in the mills is unprecedented over the years. They have put excess maintenance into Mulgrave and SJ Mill and the associated rail networks. To give MSF credit, they did buy mills that were from another foreign company that had the philosophy of just rape it and all the infrastructure was there.

35 MSF, the sugar marketing hasn't stopped them from investing great amounts of money. They have also made major investments when the tree farms collapsed and now banana farms are collapsing. They're making major investments to get that cane back in the farm to help growers to do
40 that. It's not that I'm pushing their barrow. I like that they've decided to get on in life and looked at how we can make all survive in this industry and restructure it.

45 Also with that, in that comment where they say it will lead to reduced productivity of sugar cane growing, well productivity is a funny word.

It's what people make of it. What we've got, I think talking generally, is milling companies have got a lot more issues than just the marketing, especially in our area. As they rationalise the milling capacity, we're at our limit now, we've got seasons that start at June to December, we're
5 looking at 19 December due to weather for the milling capacity and I understand the economics of why they did that. Who is taking the hit there is the grower. He's had longer seasons. His CCS has declined, so I don't think that comment is fair that the marketing is going to do that for productivity. The fundamental issues with milling have a larger effect
10 than any little bit of premium on the marketing would.

Actually, I think, just getting off the side track, there's a crossroads happening right now with the mills. Maybe they've got an issue where they've got to spend a lot of millions of dollars to try and get crushing
15 capacity up to handle the cane supply they've got or maybe they look at it that it might be better to just try and get something out of the marketing, but that's my own issue.

Another issue I picked up on the report is of how they get to their
20 conclusion and I'm not going to use the company's name, it's basic to all, it's just to make a point, but the milling companies have said that because it's constraining the sugar marketing, it's forced milling companies in a complex redrafting process, that delay in the drafting of contracts, and people can't forward sell because prices are up. Well, we can forward
25 price now because the mill have sat down with us.

Mind you, we have lost - to be a balanced approach, MSF when they were fighting to have all the grower interests for marketing, in 2013, at the end of that contract, end 2016 contract, they just had a finite line. They
30 withdrew from QSL and growers couldn't price. That has meant a major loss to the area when that happened because growers had a contract that had a dead end. They had no marketer because they wanted to take it all to MSF Sugar. Since then, like I say, they've embraced growers' choice since the legislation passed and everyone's getting on with it, but it's
35 noted that in history. Everyone goes on about - well right there, that thing is that the prices have been the best since 2012. Well, there's only one reason growers can't price and I'd just like to make that point.

Another area, just to go through it, I was interested how the
40 Productivity Commission got into the average size of sugar cane farms and I know it's just a small, fundamental issue. When they compare, Australia increased to 110 hectares and this compares to the United States at 495 at the same time. Well, I don't know how valid that argument is. When you can compare a country that relies on the world sugar price for
45 their income to a country that gets a guaranteed 22 cents a pound.

I've worked all around the world with sugar. I've spent months in countries, not as a tourist. I just find it a bit offensive that part, because you're looking at labour costs, every other government assistance, and I think it sells our farmers short, whether they be in sugar, grain or anything. We're one of the most efficient farmers in the world, playing against an unbalanced system, and I don't think that's an argument even to come into that to get to that conclusion.

MR LINDWALL: I didn't think we were trying to argue - I wasn't defending the US system by any means.

MR CALCAGNO: No, no, but it does. Going on from that, one of the biggest things and a lot to with where those hectares - I am getting to a point - that hectares is at 110 and they say here 40 per cent of sugar cane growers intend to maintain. Well, age is a factor in our industry. This is where MSF has made the decision to go with choice in marketing, as well as investing in their milling capacity. We're starting next week. They have invested some, but next week myself, of Cairns Region Canegrowers Deputy Chairman, and Joseph Marano, and the Deputy Chairman of Innisfail, we're getting together with MSF Sugar and they want to try and address how to keep the land in the cane as growers get old.

They want to invest money into it to support the farmers to try and grow and to take on - one of the biggest issues in the industry, they want to invest to try and help the farmers and themselves, because that's their business, the environmental challenges and our social licence to grow, to farm with the Great Barrier Reef on the edge. That was there. It's pleasing as a company that they've put the sugar marketing behind them and now there's actual action on the ground and that's where the productivity gains are, not in the marketing. That's it, if we can work together.

I know the comment you made where you asked a question from the other growing areas whether that - like it's been a bitter argument, and if the confidence will return. We did have a bitter argument. We stood as hard as they did. The company has, like I say, changed. It's taken a different view, a different path, and grower confidence has just returned. I think it benefits the company and the growers if they can get over this hurdle. Like I say, the sky hasn't fallen in, actually it's getting a lot brighter; all the clouds have cleared away a lot.

Just a bit of history. Another thing they say here and I hate, like Philip said, reregulation. It's not reregulation. Some people say tomato, some people say tomato, but I'm not going to call it that, the reregulation.

5 In the Queensland sugar industry we'll limit the competitive forces driving innovation and productivity growth in sugar cane farming and marketing and innovation in marketing, et cetera. Now back in 2006, just to give you a bit of history, in 2006 when deregulation happened, Mulgrave Sugar Mill was a cooperative. So they did break away and market their own sugar and they set up their own sugar marketing business. That is what MSF has inherited, but what they inherited was pretty mundane, a one size fits all model.

10 Once MSF took on that marketing and this is what gets lost in the argument, QSL was there offering other pools. So MSF increased their pools to match QSL's product. Now they brought out some different pools and now QSF have adapted, and the winner in that is the growers. So I can't see where anything is non-competitive or lacking innovation. Like I say, I'm giving it from the coalface. We've enacted the legislation. The mill's playing by it and everyone's going in the right direction and going forward.

20 I think that pretty well covers it. It gets lost. You will hear all about the history, et cetera, and we think it's the wrong thing to dismiss the legislation because we're working under it and there's no problem. It's just a mindset and I think everyone jumps at a few shadows. It's all been a win, win. I think Barry could touch on it, that the mill is very open and there's major investments in the future.

25 **MR LINDWALL:** Do you think MSF is happy with it. I mean it's now agreeing and it's going ahead with the arrangements but would it have preferred the previous arrangement when it was going to market everything?

30 **MR CALCAGNO:** Probably. Well, I use the point, when we always had that argument of - it's a simplistic argument that I'm going to use but when the mills, and I'm not going to mill bash, I'm just stating it as a fact, when they used to say, "We're only doing this for the growers for them to get a higher price", well in fairness, if you were a milling company and there was nothing in it for you, why would you lose 750,000 tonnes of cane up in the Tableland, a milling area, the whole mill. Why would you lose that if there was nothing in it for you? That's all. Everyone takes their own conclusions out of that. I think now we've got to move on. MSF has come to an agreement and we've come to an agreement with them and I think we're moving on, and that the industry is in a better shape for the future.

40 **MR LINDWALL:** Your farmers or your growers have a choice between QSL and MSF?

MR CALCAGNO: Yes.

5 **MR LINDWALL:** Is there a minimum? Has MSF said that I need a minimum of farmers to accept MSF, otherwise we'll have to be QSL? You would think that if it was too small a quantity to market, it wouldn't be worth doing.

10 **MR CALCAGNO:** No, no. See they've got Maryborough Sugar. They've got Tableland. They've got Mulgrave. The Mulgrave growers of our region, about 90 per cent of them are MSF marketing because it was a carry on from Mulgrave, from the pricing system. They're happy with the system. All power to them. Other growers are happy with QSL, but no, MSF - I think Maryborough, they're mainly MSF marketing and it's competitive. MSF are around pushing their product. I have no problem if 15 one day MSF marketing is the - let's say a scenario, if MSF marketing is the major marketer up there, well the growers made that choice, not got pushed into a corner to do that and that's it. If they put out a better product, well it's up to the other marketer to adapt to it.

20 **MR LINDWALL:** Indeed.

MR CALCAGNO: I thought that was what business and competition was all about.

25 **MR LINDWALL:** Yes, that is what business and competition is about.

MR CALCAGNO: Just to add on, I find it a bit strange and like I say, I'm not any Einstein in it, but one thing that we have got going for us in 30 Australia, everyone eats Queensland raw sugar around the world. You're going to get a heap of companies over there trying to get premiums. Well I thought you get the best premium when everyone is singing from the same song sheet and not one is trying to undercut the other. There's another side to that story.

35 **MR LINDWALL:** Could I ask a couple of other questions.

MR CALCAGNO: I better let Barry have his say too.

40 **MR LINDWALL:** As we talk we get time to ask something that's a bit different. What do you actually negotiate in a Cane Supplier Agreement, since the price split is already set by a formula? What's the actual negotiation about?

MR CALCAGNO: Delayed cane, like operational matters, harvesting, bin deliveries.

5 **MR LINDWALL:** So this farmer, when that farmer harvests and delivers versus this farmer.

MR CALCAGNO: No, no, it's holistic, just an operational approach, and the late cane.

10 **MR STUBBS:** It covers everything. How the millers pay for the sugar, how it's delivered to the mill, whose responsibility it is, how the cane analysis system works, so that there's true transparency in how the sugar is measured. It goes right through to the marketing and it covers everything involved in the crushing, the deliveries and season lengths.

15 **MR CALCAGNO:** Season length clauses and CCS underwriting, et cetera.

20 **MR STUBBS:** What happens if it's wet and things like that, virtually everything. If it's not in the Cane Supplier Agreement, you don't have it. It's got to cover everything.

25 **MR LINDWALL:** What happens with the raw sugar from Queensland that is used domestically? So everything that currently that's getting exported via QSL or, in this case, MSF, what happens to domestic raw sugar?

MR CALCAGNO: I'm not an expert in that field. All I know is ours is raw sugar.

30 **MR LINDWALL:** Do we make refined sugar?

MR STUBBS: There's a couple of our southern mills I believe supply the domestic market. Our mills don't, I believe.

35 **MR CALCAGNO:** Yes, because I think 88 per cent or something of Queensland sugar is exported.

40 **MR STUBBS:** We do have refineries in Australia, yes.

MR LINDWALL: Do you know where they mostly get exported to?

45 **MR CALCAGNO:** I think the Asian countries because of our proximity but the marketers would be able to tell you that.

MR LINDWALL: They do like that raw sugar.

5 **MR CALCAGNO:** Well my view, from what you read, you can only take what you read, one of them is our proximity to the Asian market. That's a big factor with shipping. Our quality of product and our reliability through the terminals, et cetera.

10 **MR LINDWALL:** Those terminals are directly - I think I asked this yesterday in Brisbane - there's no coastal shipping here which was subject to that cabotage rules which make it very expensive. It's much cheaper, as I found out when I was in Hobart, to send a ship from Melbourne to Shanghai, than a ship from Hobart to Melbourne.

15 **MR CALCAGNO:** Yes.

MR LINDWALL: It's about a sixth of the price, if I'm not mistaken.

20 **MR CALCAGNO:** Yes, well I don't know about maritime matters. If you ask me what to plant in a block I can help you, but not maritime. That's a bit out of my field.

MR STUBBS: Most of the sugar form is exported in that raw form because the buyers want those by-products and not the product itself.

25 **MR LINDWALL:** It's in bulk form rather than packaged?

MR STUBBS: It's all bulk, yes. This system is owned by the growers, the millers, the terminals, as you would have heard over the time.

30 There's a couple of other points that I'd like to touch on and Steven's fairly well covered it, in that the reason why we opposed the draft recommendation 11.2, and that is basically because it is working for us. We've managed it successfully, as Steven said, completed our supply contract and we had a good attitude from the mill, the attitude from the millers when we were negotiating. It was asked, "Are you going to be like the other millers?" and they said, "We're here to get on. We're not interested in what the other millers are doing. We're here to get on with business", and that's what they did. We've successfully done that and they have signed off on the on-supply agreement.

40 There's a radio interview here I'll table. There's also here an argument - well, not argument, but a lawyer's description on why the industry needed growers' choice, which I was going to table. There's also one other interesting point there that happened in Mulgrave there. As Steven said, most of the Mulgrave growers supply the MSF marketing

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5 system, but it was put to them in a growers meeting, “Do you want growers’ choice?” and it was unanimous. Not one spoke against it; it was 100 per cent. They wanted to keep QSL there as the benchmark, as the policeman in the room. That was a very strong and convincing statement, what they did there.

10 **MR CALCAGNO:** I think just one comment before I go. Tom there, on the board at Tully Canegrowers, Tully Mill, this marketing is - I keep hearing about the mills, how it’s going to affect them, et cetera. When you see on the board as with the milling capacity at its peak now, you take an area like Tully, they’ve got a season that long, all they’re worried about is the marketing, the mill. They’re even stopping the expansion of the industry there because the mill won’t invest in what they’re supposed to be, the milling sector, to expand capacity. I think this is, yes, the productivity gains are in the paddock. That’s where they are.

15 **MR STUBBS:** The spirit of cooperation that MSF took on with negotiations, they’ve got to be commended for it, and they’ve also got major plans for value added.

20 **MR LINDWALL:** Thanks Steven and Barry.

MR CALCAGNO: Thank you.

25 **MR LINDWALL:** I think we’ve got a very short three-minute presentation and then we’ll have lunch. Adrian and Colin Ivory. Welcome, Adrian and Colin. Would you just say your names and give a short presentation. I think if you could keep it to about three or four minutes, that would be perfect.

30 **MR A IVORY:** I’m Adrian Ivory from Pioneer Growers.

MR C IVORY: Colin Ivory, Adrian’s son.

35 **MR A IVORY:** We’re attempting to negotiate a totally different scheme than all the growers here. I told the mill we wanted to be paid on our total sugar production and the mill to cost the operations of crushing the cane. So far they haven’t refused. I did this because CCS served the industry well during regulation but post-regulation I don’t think it’s suitable. CCS mixes up - gets the quality and quantity very confused. The quantity of sucrose that a farmer is paid on is influenced by the quality he supplies to the mill. I don’t think that’s suitable.

40
45 Also, the quality of other farmer’s supply affects CCS by the class fibre system.

MR LINDWALL: Class fibre?

5 **MR A IVORY:** Class fibre. We have a class fibre system which if a farmer supplies a lot of roots and trash and mud in the cane, it goes into fibre. It inflates the fibre, that decreases your CCS, not only his, but yours goes down as well.

10 **MR LINDWALL:** It's very hard to differentiate your cane from someone else's cane.

15 **MR A IVORY:** Yes, you can't differentiate on fibre at all and on quality. The quality and the mud are combined, they're not separate. So just leave CCS alone. It would be good if we could find out what the miller is actually receiving out of CCS, but you can't find that out, the miller as he adopts the attitude it is his private business, how much sugar he crushes from the cane. That would be all very well if he measured the product properly in the first place. If he doesn't measure the product properly, you can have GI sugar because the product was never measured in the first place, so there's a real problem there.

20
25 GI sugar has resulted primarily from the product not being properly measured in the first place. This is why they've put that, I think, through State Government. If you measure the product properly they would have a good argument against GI marketing but they refuse to measure the product properly or canegrowers and other associated bodies have not pressed the issue.

30 That's basically where I stand.

MR LINDWALL: What type of alternative would you put in place then, if you could? I mean it might be difficult.

35 **MR A IVORY:** All the sucrose, the recovery of sucrose, goes to make pol. Pol is the basic element, the basic element, the pol factor in world sugar.

40 **MR LINDWALL:** That was something I heard yesterday, something called very high pol, for example.

MR A IVORY: Yes, in sugar it's the pol.

MR LINDWALL: Polarisation, is that what it is?

5 **MR A IVORY:** Yes, polarisation, measuring with the polarimeter instrument, read by polarised light passing through the solution. Now there's no alternative system you can have, so I take all the sugar back that's derived from my cane. They have to work that out and then I'd pay them the number of dollars per tonne they wanted to crush the cane. I put forward the idea. I don't know whether it will be successful or not. I don't know how it will go, but there you are.

10 **MR LINDWALL:** Thank you very much for appearing.

MR A IVORY: Okay.

15 **MR LINDWALL:** We may as well all go for lunch, I think, now. We should resume at 1.30 with Andrew Rea, a cattle grazier from Eton Vale Station.

ADJOURNED [12.39 pm]

20 **RESUMED** [1.33 pm]

25 **MR LINDWALL:** You just tell us a bit about - just start with your name and what - you're a cattle grazier, obviously.

MR REA: Yes, yes.

30 **MR LINDWALL:** And tell us a bit about the farm and maybe what you want to say today.

35 **MR REA:** Right, thank you. Yes, my name's Andrew Rea. Our family own freehold grazing land about 50k west of Bowen and also about 150k west of Rockhampton. That's wholly and solely cattle. We've been copping a bit of a roughing up, if you want to use that word, with resource companies. You know, whether it's coal seam gas, exploring for coal seam gas, or coal, or minerals, and at one point in time we were dealing with ten companies and railway lines.

40 Now, I think in my original submission I put in one of my big problems is I can't get paid for my time, nobody works free anymore. I thought slavery was gone, and - but apparently it's not.

45 **MR LINDWALL:** No. Not when it comes to yourself.

5 **MR REA:** Yes, mate. And the payment of legal fees. Now, that's another one, because when they first turn up, resource companies, with your - what do they call it? - preliminary activities, when they're walking around kicking stones, whatever they do, that preliminary activities, you don't need a compensation agreement, so that's the end of your legal fees.

10 But when they come to advanced activities, that's when they start getting in with bulldozers and backhoes, whatever else, drilling holes. You've got to have a compensation agreement, and if you take them fellows on without a lawyer I think you're, you know, being a bit silly, really.

15 But now, the only time they have to pay the legal fees is when there's a compensation agreement signed. So you can either accept the dribble they hand out to you so you get your legal fees paid, or you can take the risk of going for a better deal, and if they don't like it and walk off you're left with a big legal bill. And to me that's totally wrong. I mean, they initiated the action, not me.

20 **MR LINDWALL:** Do any law firms offer, you know, like a system where they give you legal advice and then they get the fees after the event?

25 **MR REA:** What was that again?

MR LINDWALL: Do any of the legal companies now say that, "I'll work for you to try and negotiate you a good compensation deal, and I'll collect the money once the deal's been signed"?

30 **MR REA:** I haven't found one.

MR LINDWALL: No-fee no-win type things?

35 **MR REA:** No.

MR LINDWALL: No-win no-fee?

40 **MR REA:** No, I haven't found one. Every 30 days I've got to pay. You know, some of these guys could drag it out for three years and then decide "no" and they walk off. And we're owed a fair bit of money for various bits and pieces, but anyway, the biggest - that was on landholder's time and your legal fees, but we're also being faced now with a bigger problem, I believe, is with - we've got a six car railway line coming through from Galilee Basin into Bowen, Abbott Point, and we're dealing
45 with a multinational railway company.

5 The power that these fellows have, they can just come onto your freehold land, and if you don't like what they're doing, they go to the government, I don't know who goes to where, but the government just comes and resumes my freehold land. They just take it off. If you don't agree with them, they just come resume your land.

10 And look, I believe once you've had what they call a state development area, an SDA for short, once you've had an SDA placed over your land, your freehold land - doesn't matter if it's freehold, leasehold, doesn't seem to matter - you know, your rights to protect your property, your family and yourself are gone. They're gone. They're just removed. They just do what they like, and if they don't, the government will do it for them. If you don't buckle under them, the government will do it for them.

15 And I can't understand this, and the government's running around espousing, you know, how they support small businesses, and yet they just stand back and watch them get run over, and that's what I'm struggling with. Now, three years ago we had a state development area placed over our land, and this has been going on for three years.

MR LINDWALL: This is this railway?

25 **MR REA:** The railway, yes, yes, yes, yes, yes, six kms of railway line, that's it. And the amount of time that that's taken us is - well, who would know? I've got a record of all the time, the meetings and the letters and God only knows what else, but you know, we are just being forced to subsidise the under-capitalised under-resourced company. We're just being forced to subsidise it. We get no option.

30 And so anyway, as we move on down, like, we've got - the place has to be valued. We have no option when it's going to be done. When ours was valued back in 14, in the middle of a screaming drought, property prices were depressed, cattle prices were depressed by about 25 per cent. So there it is straight up, I copped 25 per cent before I even start.

35 Now, that's one part of it. Now, when we move on, after the line goes through, or before it goes through, or whatever, we've got all this extra infrastructure, because they're just going to cut through water, through paddocks, over fences, whatever.

40 Now, we've done a costing on that, which I've got here, and I think it was on - should have been an attachment on the original thing.

45

MR LINDWALL: Don't know if I've got the attachment. Did you - - -

MR REA: The first one? No, it come the other day, with the second one.

5 **MR LINDWALL:** We did have that (indistinct).

MR REA: You have got it? Yes. Now, we've sat down and done all the costings of the extra, and it's going to cost us three quarters of a million dollars to maintain our beef production. Not increase it, to maintain it.
10 Now, that's where the problem starts. We don't only have to put this stuff in, it's got to be maintained.

Now, all the figures we've done - now, these figures, I might add, are not really ours, because - well, they are our figures, but they were
15 governed by - what do they call themselves? Reef Rescue or something. They were running round with schemes to - no, I tell a lie. North Queensland Dry Tropics, it might have been. It's one of those. Tied up with the reef, anyway.

20 **MR LINDWALL:** Okay.

MR REA: We put in fencing and waters off the rivers to keep the cattle back off the streams. And this is what - we done a scheme, and this is what all of it. So they're government figures, they're not mine. Or
25 they're my figures, but - - -

MR LINDWALL: No, I know what you mean, yes.

MR REA: Yes, yes. So now we come to the point where I've got to spend the three quarters of a million dollars, now it's got to be maintained. Where's the money come from? Well, the only money that I have is from
30 the compensation, the so-called compensation. So the lifespan of that infrastructure is about 30 years.

35 **MR LINDWALL:** So this is a series of fences?

MR REA: Fences, tanks, probs, all that sort of stuff. Yes. So what I done, dug into records, and from 1985 to 2015, a 30 year period, all our input materials of average going up - you know, I'm talking about dips,
40 licks, posts, wire, steel products, all this sort of stuff, have gone up 7.5 per cent per annum. So - and then the previous 30 years to that, inflation has gone up 3.61, and - - -

MR LINDWALL: You should be an economist.
45

MR REA: Beg your pardon?

MR LINDWALL: You're an economist.

5 **MR REA:** And our maintenance costs, I went back through our financial statements, and according to my figures our maintenance costs are about 2.26 per cent. So if you - you know what I mean by that? You know, if it's \$1,000 worth, it's costing you 2.26.

10 So all right, now the only place, the only money I got is what's left now of the so-called compensation from the - when I take the three quarters of a million out. I put that in the bank, compound interest for every three months, and at the end of 30 years, after I've paid the maintenance cost, this infrastructure is shot, so if you take that out using
15 those figures there's no money left, it's all gone.

So that begs the question, where's the money for my (indistinct) disturbance and what else? There's no money there. This is just free. I get nothing, and I just think it's wrong where somebody can come along
20 and put six k of line through your place and I get nothing out of it.

MR LINDWALL: So this 750,000 that you invested on this is entirely due to that railway - - -

25 **MR REA:** Absolutely.

MR LINDWALL: In which case you would have thought that would be part of the compensation in the pool?

30 **MR REA:** Who knows? It's not listed, it's nothing, there it is. Plonk. Do what you like with it. And, like, as Eton Vale stands today, I don't need any more water, I don't need any more yards, I don't need any more fences, but because of this I've got to stump up and put another three quarters of a million.

35 And the place is over-capitalised. And you know, I'm not talking years down the road, because now they're going to holistic management and cell grazing and all that stuff, so whether we go down that road eventually I have no idea, but I'm only talking about today. And I think
40 that's about it in a nutshell, if you can understand me.

MR LINDWALL: Yes, no, I can understand it very well.

45 **MR REA:** Yes, yes, yes.

5 **MR LINDWALL:** I mean, the law I thought was quite clear on that, that the compensation should be the full amount of the disturbance that you've been affected by, and in the case of coal seam gas you've got the Queensland Gas Commission - isn't that what it's called, I think? Gas Fields - - -

MR REA: Yes. John Cotter's the chairman of it, yes.

10 **MR LINDWALL:** Has that been useful? Been helpful? Not in this - not for the railway, but I'm talking about for - - -

MR REA: Yes.

15 **MR LINDWALL:** You had gas - CSG - - -

MR REA: Well, we were dealing with QGC. They want to drill for gas. And yes, well, it's the same old story. It's either their way or the highway. And all I ever wanted was a way of life, was just a fair go and what belonged to me. That's all I want out of things. And you know, I'm
20 only talking about the - the next 30 years is not going to weigh on me, I won't be here, but all I'm talking about is that money for the next 30 years is going to fix that infrastructure. There's no money for the valuation, or (indistinct) they call it, and what do we do from here on in?

25 I think there's a case there for royalties or something. I know - yes. I just think if the government keep going the way they're going, I really don't know where we're going to finish up. I really don't.

30 **MR LINDWALL:** I think it's a fair principle that if you've been affected by a mining company or a government action like that you should be receiving compensation that fully accounts for the extra works that need to be done to restore the property to a working order.

35 **MR REA:** Yes. Well, that's what I think.

MR LINDWALL: It's not unreasonable, no.

40 **MR REA:** But that doesn't work anymore. And on 17 December 2014, the Queensland government just brought the chopper down and said anybody who hadn't signed, we're just going to issue a notice of intention to resume, so we signed at 5 o'clock on the 17th - we were still negotiating with these fellows, but they just brought the chopper down, and I don't want to bring up politics, but on 3 January they announced the election, so yes, I'll leave that open. Anybody can work out why. Yes.
45 Yes. So - but anyway, that's about it in a nutshell.

And you know, the government are just backing these fellows all the way, all the way. You know, there's a 500 metre strip through our place now.

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MR LINDWALL: So where's the - is this for a mine, or is it for a - - -

MR REA: For coal mine.

10 **MR LINDWALL:** Coal mine, yes.

MR REA: Galilee, yes.

MR LINDWALL: That's right, yes.

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MR REA: Yes, yes, yes. They've taken a 500 metre strip, state development area. As I understand it, if the rail line goes through they want 100 metres. The other 400 metres stops there. It's not removed. So I've got this stigma for I don't know how long. If any future buyer comes along, well, he's going to say, "What about this?"

20

And I think if you're silly enough to develop it, even if you did sell it, you're not going to get your money back. You'll be subject to all this sort of stuff. So that's about it. If you want to make it any clearer than that, I'll - - -

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MR LINDWALL: I don't know what else to say apart from that you should be receiving fair compensation for that type of thing.

30 **MR REA:** Yes. And we're not. You know? I've taken these figures to politicians. I've got to be a bit careful what I take and where I go with them because, you know, if you don't - you signed a confidentiality agreement.

35 **MR LINDWALL:** Yes, yes, yes, as you said, yes.

MR REA: Yes. If I don't sign that, they withdraw the offer and into court you go. Well, I haven't got that sort of money to back up - - -

40 **MR LINDWALL:** I think we said in our gas report, not related to any of this, of course, that - we said in the gas report that the compensation should be transparent too, so that you know what you're up for, and legal fees should be paid for in advance, and there are a few things in our gas report which would have accounted for that.

45

That's why I was saying about the Gas Fields Commission we thought was something in the right direction, and again, it's not relevant for your coal mining - - -

5 **MR REA:** Same principle.

MR LINDWALL: The same principle, though, yes.

10 **MR REA:** Exactly. Exactly. So you know, the part that I'm struggling with is just backed wholly and solely by the government. I haven't got a leg to stand on, you know? I've got companies standing on this side of the gun head saying, "If you don't sign we're going to take you to court," and I've got the Coordinator-General sitting on this side saying that, "If you don't sign it, we're going to take it off you." I've really got nowhere to go.

15 **MR LINDWALL:** No, exactly.

MR REA: And I don't think that's fair.

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MR LINDWALL: No, no.

25 **MR REA:** And you know, when we got down to the nitty gritty of it, I valued - we've had three valuations, for crying out loud, so I average up the three valuations, I've averaged up the three percentages what they reckon (indistinct) is, put those in, and we're going to be 1.75 million out of pocket. That's what we're going to lose, just like that. I can't handle that sort of loss.

30 **MR LINDWALL:** No, no, no. Not many people can.

35 **MR REA:** And so where do I get the money from? There's nothing in compensation. It's all gone. I burnt that at the first 30 years. So there's only one place for me to go. I've just got to board up the land and stack a heap of cattle on and wreck the environment, and now they're going to blame me for it. They're going to blame me for the reef. It's not me.

40 I've got a wife, some kids and grandkids and all the rest of it. I just think it's totally, totally wrong, totally wrong, and I know they're going to say, and it's been put to me, "Well, what's the alternative?" I'd say, "Just get rid of the state development area." If these guys are fair dinkum about putting a railway line through, come and see me.

45 **MR LINDWALL:** Yes.

MR REA: We'll thrash it out if you're fair dinkum. But then they say, "Oh, yeah, but the landholder's going to make, you know, outlandish claims." True. If you turn the page over you've got the resource companies making outlandish claims just like I've got here.

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MR LINDWALL: That's why you're supposed to have a system in the middle that arbitrates between those two.

MR REA: Absolutely. It's all there in black and white, there's no argument, there's no hairy fairy, there's no pulling figures out of the sky, it's all there. So I don't know what else I can say. Is there anything else you want to know?

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MR LINDWALL: I think you've said everything. Unless you want to talk about some other issues in regulation that you'd like to raise?

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MR REA: Mate, there's plenty others, but I think I might just cloud the issue. There's plenty there, there's plenty there, and you know, I could probably bore you fellows for a couple of days, but right now this is the biggest one, and it's going to cost a lot of money.

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MR LINDWALL: It sounds like it is, yes.

MR REA: And right now I've got a claim in for our time on this railway line. I know they're not going to pay it. I just put it in.

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MR LINDWALL: You have to try, yes.

MR REA: I've got to try, and it's in with the Coordinator-General right now. I know he's not going to pay it. But I have it on record.

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MR LINDWALL: Get him embarrassed, yes.

MR REA: And I just - and you know, if you don't turn up to these meetings, well, they just do it their way, so you've got to - you've got to front up. You haven't got any option but to front up and do the best you can.

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MR LINDWALL: Exactly.

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MR REA: And then we got the rug jerked from under us on 17 December 2014, and I still haven't got over that, probably never will. We were still negotiating - - -

MR LINDWALL: Yes, yes.

45

MR REA: - - - and the government just ripped the rug out. So - - -

5 **MR LINDWALL:** Well, thank you very much, Andrew, for appearing here, and all we can say is best of luck.

MR REA: Well, yes, I don't know what you fellows can do about it.

10 **MR LINDWALL:** We can only use case studies as an example to illustrate, you know, bad behaviour on certain parties, yes. And improve the process, hopefully, yes. We can't necessarily - we won't be able to do anything with your case, but we can certainly hope that some people take notice so that this type of thing doesn't happen in the future to someone else.

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MR REA: Because as I understand it, there's one more meeting between us and the Coordinator-General if this thing goes ahead. Now, where that's going to take us, I have no idea. I have no idea.

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MR LINDWALL: Well, keep us informed about how things are - yes.

MR REA: And if you want any more figures, you just let me know. I've got an office full of them, so - but anyway.

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MR LINDWALL: Good to hear. Well, we like using case studies too.

MR REA: Beg your pardon?

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MR LINDWALL: We like case studies.

35

MR REA: Yes, yes, yes, yes, yes, yes, yes. So yes, mate, that's about it, and agriculture just can't keep this up too much longer. I don't know if you've seen that bit on the bottom of that - and government don't seem to be too perturbed about it on the - I'll just dig it up here in a minute. Report of Targeted Compliance Program - - -

MR LINDWALL: Yes, yes.

40

MR REA: - - - In Queensland, 0.003 per cent of the 165,000 hectares disturbed by mining has been certified by Queensland Department of Environment. There has been 0.003 per cent rehabilitated out of 165,000 hectares.

45

MR LINDWALL: Yes.

MR REA: Shouldn't that send off a bell or two?

MR LINDWALL: You'd think so, wouldn't you? Anyway, thank you again, Andrew.

5

MR REA: All right. Thanks for your time.

MR LINDWALL: Pleasure. And so we'll now move to Russell Wilkins from the Limestone Association, but I'll just go grab myself a coffee. I'll be five seconds.

10

If you'd just say your name and the organisation and give us a little bit of an outline of what you'd like to say today?

MR WILKINS: Good afternoon, everyone. My name's Russell Wilkins. I'm from Babinda Mirriwinni North Queensland. I'm born in North Queensland, like young fellow over here, but I represent today the Limestone Association of Australia. You notice the introduction's come from Victoria. Well, we're in North Queensland, but we do talk to each other and we know what's going on.

20

Limestone. Limestone is not cement. It is calcium carbonate. That's what agriculture people need, and that's what we produce, with dolomites and gypsums. We've been in the sugar - I'm a sugar grower too also, nearly retired but nearly there, all my life. But we've been in the lime industry now for 40 years, and we started up - it was a bit of an accident how it happened.

25

40 years ago we nearly lost our sugar industry, because no one knew chemistry, but the banana boys did, and when they come up to North Queensland, they kept saying to my dad, "There's something wrong with your cane, it's not right, it doesn't look right," and dad said, "What would a banana grower know?" But they knew their stuff.

30

And even today the banana growers know their groundwork on growing bananas. They are experts at it. Then we had a chap come up, Eddie Spry from Bundaberg, worked from the BSES. He said, "There's something wrong with the cane out here." So he went out to Chilligurrong, got a load of lime. In those days the road was very rough and he put it down on one of our neighbours up in the granite country, and he said it broke down. He said, "I just threw it out by hand in the end." It was getting on dark. And this is the words Eddie telling me. He's not with us now, unfortunately.

35

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And there it stood out, like organ knobs, next year. The cane was

45

level, no rattle pipe, and where it finished the lime, the cane went down and there was rattle pipe. And no one could tell us what was wrong with our sugar industry. So we reckoned it's got to be calcium. Not knowing what the word "calcium" meant, we had to look up the dictionary and find out.

None of the farmers in those days had chemistry degrees, nor do I at this stage. It's all hard work of learning. And we started. Now, pH is - you understand pH?

MR LINDWALL: Yes, 7 is neutral and less than 7 is acidic and higher than 7 is basic.

MR WILKINS: You went to school by the sound of it.

MR LINDWALL: Yes.

MR WILKINS: That's correct. And even today, we're finding farmers at field days don't understand pHs, and the whole industry's based around that. We're pH of 3.5.

MR LINDWALL: Very acidic, yes.

MR WILKINS: That bad, hey, that the cane wouldn't grow. So what did we do? To cut this sort, we bought a lime mine up in the Tableland, and dad was alive then, and we got some books and read how to build a crush, and away we went.

So we got - we started crushing line, and the neighbour said, "We want some lime for our paddock." I could put a half an hour here, that's what I'm talking.

MR LINDWALL: That's all right, keep going.

MR WILKINS: Anyway, so it - so we got registered and sold some lime to them. Because we couldn't - no one could get lime, there was only one producer in the area, and he only had a small operation, you know? And this is what the problem was. No one knew what it was all about. Anyway, way of the industry.

MR LINDWALL: Did he have a quarry somewhere?

MR WILKINS: Yes, Mt Garner, yes, it was, he brought it down. That was 100 miles away. Yes, everything's costing us on transport at this stage.

MR LINDWALL: Yes, yes.

5 **MR WILKINS:** And I'm going into another phase later. We've been in this game for a couple of years, and then we had a chap from Onga Minerals come in and said, "You want to come to the Lime Association?" "What are you talking about?" So they invited us, so we went down to the Australian Association. It was called a different name then, but this has all been modernised.

10 So anyway, that's how we got mixed up with the Limestone Association. We've been it say for about 35 years, I'd say. And as you see, I'll read this out if you want me to, and I've got two submissions, one from the Limestone Association, which by the way was sent over the weekend to me, and I thought if I could put the local one into it with my company, to try and balance it up from the local point of view.

20 Submission to the Productivity Commission, re: regulation of Australian agriculture. The Limestone Association of Australia, LAA, represents the interests of producers of limestone products, particularly agriculture lime, in northern, eastern and southern Australia.

25 Agriculture lime is an important natural derived agricultural import use to combat acidity and improve soil production. The LAA wishes to submit the following in relation to the future competitiveness of Australian agriculture. Mining and quarrying is a small footprint on the land mass of the continent. Limestone used in the supply chain as agricultural lime and in construction of economic infrastructure is an important compound of the agricultural sector. Imports of competing agriculture product should be cut especially where imports threaten the ongoing viability of a sector and the social and economic structure of regions.

30 Where imported or potentially imported products have quarantine uses around them, these products shall be excluded until it is clearly proven that there would be no potential harm to the population or the agriculture production environment in Australia.

40 The recent case which has involved restrictions of imported tomatoes from Italy is a useful precedent in the current era. It is misleading in terms of Australian food security to assess that around two thirds of Australian agriculture production is exported. The first might represent value added up the supply chain at export price, but farm gate value is a true indicator, and several studies have demonstrated actual agriculture export measures at farm gate represent a bit over 20 per cent of farm production.

(2), this demonstrates that Australia doesn't feed the equivalent of multiples of its population overseas, hence food security is an issue, and the barriers to sustainable and expanded production need to be addressed.

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Irrigation water needs to be available at affordable prices, especially in times of drought. Water authorities shall be responsible for setting prices at normal profit prices, not at prices where rents are soared and cost of water is greater than cost of agriculture output. We understand such practices have occurred in the lower Murray Basin, where water costs have been in the vicinity of \$300 per megalitre. It is important for productivity capacity to maintain during these times for when normal agriculture seasons occur.

10

If water market forces push capacity out of farming, and the alternative operators evidently move in paying rent prices, those supply chain costs and increased demand reduces depending on its elasticity, and total production is reduced.

15

Governments have traditionally recognised the need to maintain capacity at cost the market will bear by provision of draft relief - drought relief, sorry, drought relief. Hence maintenance of water market regulation provides net economic and social worth - pardon me, I'm getting dry - social worth to the community. Can I have a drink, please?

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25

MR LINDWALL: Yes, please.

MR WILKINS: The patents for new and expanding mines inquiries which service agriculture such as limestone and gypsum need to be exploited and not held up indefinitely over environmental and native title issues. I just add on that one there, in Victoria a gypsum bloke was telling me that they can't peg any more ground because of this type of thing going on. The government won't release any more ground, and they're going to run out of gypsum.

30

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MR LINDWALL: You can't start a quarry, in other words?

MR WILKINS: Well, quarrying gypsum's quite simple, you don't have to blow, you've just got to dig it out of the earth, simple. Shortcomings in native vegetation and culture heritage assessments are recognised in the Productivity Commission draft report, especially the logistic - I can't say this word, sorry.

40

MR LINDWALL: Lexiographic.

45

MR WILKINS: - - - assessment approach. A (indistinct) and economic and regional approach rather than (indistinct) referrals back to agents is required. Governments need to make decision timelines and enforce them. An absurd example of a hardline approach we are aware of was
5 when a farmer was proceeded against for gathering up sporadic surface rock on his property without a permit when planning to change from grazing to cropping pastures.

Pastoral leases need to be flexible to allow ready adaptation to
10 changes in the market demand and environment and even to freehold as rated in the draft report. The draft report notes no clear evidence that the former Road Safety Remuneration Tribunal, RSRT, orders in relation to increased remuneration was linked to improved safety outcomes. The LAA supports this view and believes the RSRT should not be introduced
15 as such measures push up costs, especially for back loading, make driver-owners less competitive, and adversely affect a quick response and trust build-up between owner-drivers and their regular customers. Should you have any information, contact the Lower (indistinct).

20 Now, that's - that is - that's self-explanatory?

MR LINDWALL: Yes, yes.

MR WILKINS: Now, this is my local report from Mirriwinni Lime.
25 Now, lime affects everyone in this room, because without lime we're all going to starve. It's very important. Even telling your friend there we even feed it to the chooks. It's called shell grit these days, you know? And that's how it's done. We feed it to the prawn industry, and we feed it - it's used in every agriculture means. So it's a very important feed angle
30 people don't realise.

This is my submission to the Productivity Commission. Mirriwinni Lime is a local family company of 40 years of experience in agriculture limestone for agriculture purposes. The following products - lime,
35 dolomite and gypsum - are directed to Cooktown, Mackay and west to Julia Creek. Gypsum is distributed to the east coast of Australia as well as to the Northern Territory.

40 With even increased cost of electricity, the most recent being 13.2 per cent from 1 July, and with more increases to come, makes the cost involved of manufacturing lime, dolomite and gypsum a major concern as the power costs have to be passed on to farmers and customers.

45 Manufacturers can pass on the additional cost, but this will impact on the affordability of the products to the farmer. When farmers cannot

afford to purchase liming products at increased prices, which is the case with crop production, the country will not have the availability of affordable crops, thus leading to shortage of food.

5 If the government is forced to keep increasing power prices the nation will suffer when it comes to food production. Soil conditioners - farmers take up to 10 to 12 of (indistinct) cost, the sugar growers are well aware of. That's what it costs, of their farm.

10 To keep the farming world on course for production of food, the government will have to subsidise - my word, "subsidise" - the farmers, thus permitting them to continue production. Yours faithfully, me.

15 It's - the angle - I'm not an electrician, but I've only done this weekend job, but what worries us in our manufacturing world, next year we're told it's going to go up - one mine's going to go up \$30,000 power, just one mine, that's our main mine. We own a lot of mines, because it's a big country up here, and freight is our biggest cost, so you've got to try and get it to them cheaper.

20 It's a frightening thing. How far do you go? Because we've had complaints now farmers are saying, "Your lime's getting too dear." It's not our problem. We do our best to try and keep the prices down, but power's our biggest problem now. (indistinct) domestic power bill. What you've got there is the government nominates a certain figure, 40, 45, I don't know how they do it, I'm not an electrician.

25 But you have a look at the servicing fees. They're worse than what the government regulates. And the government's got no regulation on the service fees.

30 **MR LINDWALL:** Do you mean the quarterly fee, the fixed fee?

35 **MR WILKINS:** No, there's a - you get your thing, and you've got a service fee. That's not the man coming over for the meter.

MR LINDWALL: I know, that's the fixed fee every month or however long your bill is.

40 **MR WILKINS:** Yes.

MR LINDWALL: And then you get a usage fee, which is something like - - -

45 **MR WILKINS:** Usage fee, that's right.

MR LINDWALL: - - - per kilowatt hour or something like that.

5 **MR WILKINS:** Yes, what's happening with that? But this other one, it's - and the government's got no power over power, you know? Because what they've - my electrician tells me what's happened is the government - they hand that over to them, the companies do what they like. So where are we going to end up, folks?

10 All I'm doing here today is sowing the seed so someone who's got the capabilities to sort this out, and that's got to be done pretty smartly, because if we keep putting the price up, Tommy's not going to buy my lime, is he? And that's a serious thing.

15 **MR LINDWALL:** Do you want me to ask a couple of - - -

MR WILKINS: Yes, you're welcome.

20 **MR LINDWALL:** So is there marble as well with your limestone production, or it's just lime?

MR WILKINS: I'll give you marble if you want it. We use that for gardens.

25 **MR LINDWALL:** Yes, of course.

MR WILKINS: That comes from (indistinct). Different (indistinct).

30 **MR LINDWALL:** Okay. And what's the optimal pH level for cane growing soil?

35 **MR WILKINS:** The lowest you can go, we recommend, is 5.5. Anything below that - you can get a crop at 5.5. Anything below that, the aluminium's come in, and they don't let your fertilisers work. It just locks it up. So people put more fertiliser on it. Doesn't work.

MR LINDWALL: Yes. No.

40 **MR WILKINS:** We work in 5.5 to 6.6. To get to 6.6 gets too expensive. But they keep in the 5 range, 5.5 to 5 - no, 5.5 to 6 they'll be doing well.

MR LINDWALL: And what does - like, the farm, you gave me the example with the pH as low as 3.5. How much lime did that need to bring it up?

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5 **MR WILKINS:** About eight tonne we had to put on, just by action. The spreader driver drove too slow and she poured out (indistinct) spreader. And that's where it stood out, we had to put that much lime on. See, and the multiplication, as it goes down it gets higher.

MR LINDWALL: Yes, yes, yes, I know.

10 **MR WILKINS:** You know? And people don't understand that, how it works.

MR LINDWALL: Yes, I do.

15 **MR WILKINS:** You know? And this is what happened. And so we got this organised now, pretty much. But what happened was, when you got this - all this lime put on, we grow beautiful cane but our sugar went down the chute because it's all growth. And we had to adjust everything. You had to adjust your fertiliser and everything because it releases all the trace elements and everything, so - - -

20 **MR LINDWALL:** Yes, yes, yes.

MR WILKINS: - - - it's quite a hidden science.

25 **MR LINDWALL:** The - in Queensland - I mean, you mentioned the example of Victoria, where you can't really open any new mines or quarries. What about in Queensland? Is it a little bit easier to do that?

MR WILKINS: Yes, we're having no trouble.

30 **MR LINDWALL:** No?

MR WILKINS: Yes, we've got - we just opened another one up a couple of years ago. You know, no trouble there at all, you know, and you go through the right channels. We have no trouble with compensation agreements with farmers. Tell them what we want and they can virtually help us, you know? So yes, but this gentleman, he had a different story to me.

35 **MR LINDWALL:** Yes, yes.

40 **MR WILKINS:** You know? But we don't - - -

MR LINDWALL: Something different, yes.

45 **MR WILKINS:** You know, so - yes, we've got (indistinct), you know.

MR LINDWALL: And so the key issue for you is the increased electricity prices?

5 **MR WILKINS:** Yes, yes.

MR LINDWALL: Any other regulatory issues you'd like to raise? Because - - -

10 **MR WILKINS:** Well, freight's a big problem. Freight. And fuel. Fuel.

MR LINDWALL: Which is, as you mentioned, they're - - -

15 **MR WILKINS:** Yes.

MR LINDWALL: RSRT, yes, Road Safety and Remuneration Tribunals?

20 **MR WILKINS:** Yes, we're worried about that.

MR LINDWALL: Yes, well, what about truck size and weight limits? Does that affect you?

25 **MR WILKINS:** It does. We have enough trouble with B double loads. Yes, the councils aren't up with it, you know, Main Roads, and you've got to keep your eyes on the ball with that one. Certain D doubles you can't run down certain roads, you know? But as I say, it's a local council thing you've got to adjust to.

30 We've gone to heavy duty B doubles now for long distance, because we carry gypsum in from Winton to the Tablelands, and some of it goes straight through to Cooktown, to the bananas up there, and some goes down to Bundaberg, and just done some Mount Emerald. They dump it and the farmers do their own thing.

35 But it's - but we also carry gypsum into Innisfail by the railway (indistinct) special coal wagons and we've got a lot allocated to us, and that system works all right if the railway keeps running, but it keeps breaking down. We don't know how the floods are going to affect the line
40 this time, it could be washed out again.

Yes. But that's it. And this has taken years to get this organised, and it's working pretty well at this stage, you know?

45 **MR LINDWALL:** Well, excuse me, labour market issues, do you have

many employees, and are they temporary employees?

MR WILKINS: Between the sugar and the mines, we employ about 45 people. And - - -

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MR LINDWALL: They're permanent employees, are they?

MR WILKINS: Yes, we like to keep permanents on if we can, because - so you've got to train these people, and especially in the mine section, in the special mining operations there, but we spread the lime and everything with our trucks, and we've got a special chap, trucks, for that, blokes who've got to know computers and stuff. That's how it's going, it's all going computer-wise, you know?

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MR LINDWALL: Yes, yes.

MR WILKINS: And GPSs and stuff, and our industry doesn't stop, it's just - it keeps on expanding all the time, because demand is getting heavier, you know?

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MR LINDWALL: What about workplace health and safety legislation?

MR WILKINS: Don't talk about it. The mines are worse than the workplaces.

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MR LINDWALL: I know, yes.

MR WILKINS: The mines - yes, they are - we had to employ a chap - we had to employ a chap who lives in Townsville there, he had to look after all our mine sites and the workplace safety, and he was an engineer, and he had to plan the operation of the mines. Cost us a lot of money to employ him, but we had to do it, because my brother was doing it and it was getting out of scope with him, he couldn't handle it, and you had to be educated in that field. Now we're on good terms with the Mines Department once again, so it's good, you know?

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MR LINDWALL: All right. Anything else you'd like to add?

MR WILKINS: No, not really.

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MR LINDWALL: Well, thank you very much for appearing then. Now we've got Wayne Thomas from Cane Growers Innisfail.

MR LINDWALL: Sorry, all right. Tom Callow, is it? Yes, first, I think, is that right?

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MR LINDWALL: Welcome, Tom.

MR CALLOW: Thank you. A bit of a ring-in.

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MR LINDWALL: That's all right, that's what we're here for, as long as we get to our flights at 4.50 I'll be happy.

MR CALLOW: Well, I'm due to sit in with the CBL Cane Growers Burdekin, and they decided they were going to be needing all the time requested of them. But never mind. I've come through on a totally different concept here, because I was pretty sure that there'd have been a whole lot of chatter going on regards the Wilmar stuff and so forth.

MR LINDWALL: So would you like to introduce yourself today, Tom?

MR CALLOW: Tom Callow, cane grower still. Been on various cane grower representative bodies in the past, and I initially started in the sugar industry with my father when I left Gatton College in 1957. How many of you were born then? And at that time we were growing on our farm (indistinct) peak, as it was called, of 1,449 tonne.

So when I took the farm over a few years later we were growing 2,300 tonne. When I handed over four farms to my kids two years ago we were growing 15 and 16,000 tonne. I didn't stick entirely with the cane industry. We diversified into businesses in Townsville through all that process of so forth. We don't have to go into there, I suppose. But nevertheless, diversification for me was a - put me in a position to be able to purchase more farms.

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A single farm in them days, and still today, does not have the capacity to buy another farm. You basically require two farms to buy one farm. It was back then in 1957, 58, and it's still there today. Pretty much. But I would expect that the PC, Productivity Commission, would be driven to have an outcome that was based on reality and not idealism. To me that's a fairly big issue, because there's - you've got to mix idealism with realism.

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The points that I wish to implant upon the Commission are (1) that you can't build an industry without there being confidence in the future of that industry. If we look at cane and its offshoot products, then we have to look at the markets that need to be available to position that relative product that that company wished to produce certainly at the outset.

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One way to build confidence in the cane industry is to have in place a

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code of practice slash conduct that the Christensen slash Senate inquiry
federally recommended. Such a federal code would go a long way to
building confidence in the growing and processing industries to develop
extra cane production across at least the northern section of Australia and
5 with suitable varieties of cane and maybe other crops with similar offshoot
products across a wider Australia.

And right now we've got the government where they're talking about
becoming more - thrusting towards having more development in northern
10 Australia, as you're well aware. So we've got to build confidence for
people to invest in that.

The risk we growers in Queensland are facing is that if the
Queensland Sugar Bill, I'll call it, were to be squashed by the federal
15 government then a lot of present growers, large and small, will turn to
more economically productive crops.

An exercise that I have looked at is that if for example Inkerman
growers, cane growers, reduce their cane tonnage to a questionable point,
20 the Inkerman mill would close down, and growers would then face the
extra cartage cost across the river to whichever Wilmar mill was
determined.

When the price of sugar drops, so does the tonnes grown as a result,
25 and less people employed. The exercise then plays out that if there are a
lot more people employed - that there are a lot more people employed
growing cane, harvesting and milling, than if that same lane were to be
growing rice or pumpkins.

Generally in the Burdekin region the productivity that is tonnes of
cane slash sugar per hectare is higher on smaller farms, smaller farms
30 being upwards of 20,000 tonne. These farms are able to have better
timing for when they need to get jobs completed, and as a rule generally
use less chemicals.

I won't go into the monopoly situation that the millers are trying to
put themselves into. I want to be able to market my grower economic
35 interest to a market of my choice, keeping in mind that I regard the money
that my miller holds back from me is what I pay to toll crush my cane, just
40 as a cotton grower pays a cotton ginnery.

So by leaving in place the Queensland Sugar Bill and recommending
the implementation of a federal code of practice as recommended by the
Senate inquiry, the Productivity Commission would be going a long way
45 to getting incentive to grow federally the cane plus and other associated

industry and, in the eyes of the producer, the production obviously would be enhanced.

5 Thank you for your consideration and looking for a realistic outcome.
Thank you.

10 **MR LINDWALL:** Thank you. Could I just ask, Tom, about the future of sugar in the world? Do you have an idea of the future demand and the growth of sugar demand in the world?

MR CALLOW: Not - not a real clue at all, no, no.

MR LINDWALL: Would you be optimistic about it?

15 **MR CALLOW:** Well, Australia - relative, I suppose, to the total world sugar production - - -

20 **MR LINDWALL:** Yes, well, I think - my understanding is that developed countries, you know, sugar consumption increases and levels off and declines, but there's a lot of growth potential in developing countries.

25 **MR CALLOW:** There does appear to be a lot of growth across the globe for sugar increase usage, yes. As other undeveloped countries enhance their living standards, that's right, yes. Yes, yes. So no, there is a - there is a potentiality for that certainly to occur.

30 **MR LINDWALL:** This code of practice or conduct you mentioned which I'll have a look at, is that - what's been the reaction by the millers and the growers to that code of practice concept.

35 **MR CALLOW:** If you'd been in this room when they had the Senate inquiry, it was thunderous, could dare I say? The Senate inquiry got the - very much the message that the growers were very much in favour of that. I haven't been on boards of recent times to be able to say millers' reactions, personally.

MR LINDWALL: Yes, yes. All right. Well, thanks very much.

40 **MR CALLOW:** Thank you.

45 **MR LINDWALL:** Yes, excellent. We'll now move on to Wayne Thomas from Cane Growers Innisfail. Wayne, if you could introduce yourself and say what you wish to?

MR THOMAS: Wayne Thomas, manager of Cane Growers Innisfail. I've been involved in the industry in different roles for the last 40 years. I've seen the good, the bad, and the ugly, and probably could add the very ugly.

5

Of recent years I've become involved with the Sugar Industry Museum, which is just south of Innisfail and Mourilyan, so now I have a fairly depth understanding of the history of the sugar industry way back, from when the first sticks of cane came on the First Fleet.

10

I thank the Commission for this opportunity to provide an oral addition to the submission I've made, and welcome the Commissioners to seek any clarification points or observations in my submission. Now, I know the Commission's heard much about what my submission contains, and I'll be saying already, but I ask the Commission to bear with me as I reaffirm some of those points.

15

On the land use regulations, Cane Growers Innisfail, we are very concerned with the Commission's draft finding at 2.2 that it was a sentiment of the Commissioners that establishing policies that protect existing landholders' use of land as a priority objective are unlikely to be consistent with promotion of efficient land use.

20

So I ask the question, so is the Commission supportive of the rural land being developed for urban development simply because that's the most - - -

25

MR LINDWALL: Maybe there's a bit of confusion. My understanding of this part of it is that the land holder owns the property above the soil and can do with it within the law, obviously, whatever you want. The Crown owns the subsurface minerals and resources, and that was all that point is.

30

So you know, in the United States the landholder owns both - all of it, so we have a different settlement here in terms of property rights. Which is better than the other? I don't know. We did a bit of a study, but I haven't reached a conclusion on that.

35

MR THOMAS: Yes, and that's been kicked around a fair bit. They had the property rights movement developed in Australia, and of course we've heard today about the mining.

40

MR LINDWALL: So my view on that is that - sorry, I do interrupt you, but is that because the Crown owns the subsurface mineral rights, it therefore has a right to exploit them in one way or another, but the full

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compensation should be paid to the landholder for any disruption to their own activities.

5 **MR THOMAS:** Yes, and of course that goes onto my next point, is that I also raise the - express the concern about the - that property rights of the community above the property rights of the freehold land owner, so I guess that again falls within the comment you just made. But I guess it's not the right to veto that the landholder will be looking for, really, it's the right to continue with the activity. I'm more looking at what we have seen
10 as urban encroachment, all of a sudden the urban developers want the rural landholder to do something. All of a sudden the rural residential people saying, "We don't like the dust. We don't like the smell." It should be a right that the existing land use should have some rights.

15 **MR LINDWALL:** So is this like a right to farm legislation?

MR THOMAS: Similar, but at least the rights to continue the activity. We see councils start to impose, we see regulations that come in that prohibit spraying, for example, that's a clear one, dust suppressing
20 because of movement of agricultural vehicles. Not allowed to be operating early in the morning, late at night, those sorts of things, which are normal activities of a farm.

MR LINDWALL: Then you get NIMBYs coming in and - - -

25 **MR THOMAS:** Yes, exactly. And we have had that where someone has bought a parcel of land and all of a sudden start to demand that the farms around them change their ways. So that's what's happening and community is doing that and the farmer just doesn't have the protection,
30 the ability to say, "Well, hang on, I was here first. You came here and how you're demanding changes." I guess that's - I understand what you're coming from now but also the other broader issue of property rights.

35 **MR LINDWALL:** We did raise that part of it in our report too and I have a great deal of sympathy with what you're saying.

MR THOMAS: In our submission we provide a response to the information request, 2.1, and offer a method of alleviating some of the
40 financial burden with higher local government rates that rural property owners face and providing preservation of pre-existing land use by changing the quasi the unimproved land value.

45 Now, unimproved land value, to me, is a bit of a crock. We discovered this back when the sugar industry was expanding, in the 1980s,

when a lot of cattle guys decided to invest and develop their land to cane. All of a sudden their unimproved land value went up. Same piece of land, still not improved, but all of a sudden the land goes up. We see it in residential areas where all of a sudden someone gets a re-zoning to put a multiple dwelling on, the land value goes up. Same piece of land but just because it's now rezoned for a multipurpose dwelling all of a sudden they have to pay more in rates and in land tax.

So we thought perhaps maybe our contribution, which all goes to the recommendation of 3.2, for better use of market approaches whether or not we look at how using land zoning as a way of doing it, rather than the land values. So once you've set the land use, that's what it is. For farmers there's an approach there they actually made to trade off some of their land that they want to keep for conservation. At the moment they're reluctant to do that because they want to use every square meter productively and squeeze the little bit out in the bush, squeeze the repairing areas to the max.

If they will recognise that, under the plan of their farm, and technology is there, you can map a block of land and you can have all sorts of separations on it, to me that would then also drive market value. Because the land that you can't use would be then marked, whether it be swamps, creeks, gullies, land that's not productive. Sure, the rating system would then apply the maximum value on the productive land, but the point is a grower can say, "Well, fine, that land I'm not using, fine. If I get low rating on that I feel happy about that." Those sorts of things. But also I think the view of the buyer coming in and saying, "Well, you've got maximum zoning on your land for productivity, to me that's worth more when I buy it."

I didn't mention GM in our submission, but the industry is looking at genetic modification and particularly the sugar cane varieties. Producing a sugar cane variety right now takes 12 years, through natural methods. By getting the flowers of the cane, two hybrids, maybe mixing in a bit of noble, which is the original cane, what they call the noble canes, from Papua New Guinea and Java, throughout the world, and mixing together the flowers. They collect the seeds and grow them and see what we've got. So they might plant 100,000 seedlings and what comes up? Most of them are weeds, ordinary old grasses. Then the ones that do, they regrow them, see how they go, go through all of the testing systems for diseases and finally, after 12 years, out of the 100,000 you might get one or two.

So what the industry now is looking at is transgenic. Not that pure genetic modification, by just looking at the traits within the cane varieties of - - -

MR LINDWALL: What they call new breeding techniques.

5 **MR THOMAS:** It is, but they're still transgenic. So it's taking some
genes out of one, or certainly the markers, and putting them into some
varieties and making them better. Fundamentally we've got to do that,
we've got to find varieties that will take nitrogen better, that will grow
with less water, maximise sugar production or the photosynthesis of the
10 cane, all of that. So that's a smarter way of doing it because world-wide
there is a market resistance to GM, particularly in Europe.

MR LINDWALL: Come along to my hearings in Hobart next week and
you'll hear all about it.

15 **MR THOMAS:** I've just heard that you're going to have some fun time
down there. But the point is the industry is not interested. They don't
even use genetically modified yeast in the mills, purely because of that
resistance to genetic modification. Ask any diabetic and unfortunately
20 they've been using genetically modified insulin for years, but by and by,
ignore that.

So the industry is looking at how to better use technology and science,
but not specifically - I think we're now out of it. We're using Du Pont
and paying them \$5 million a year to come up with some cane, just so you
25 can spray on Roundup so it wouldn't die. Sorry, that's a waste of money.
We can now use spray smarter, hooded sprays, directional sprays, growers
can actually spray weeds out much smarter and they don't need to just
pour it on. We sit back and we see the resistance in some grains now, in
grasses, with glyphosate, we don't want that. Using glyphosate is a very
30 good management tool. In fact, what growers do now, they let the cane
grow to a certain point and then they spray and they knock it out to try and
reduce the amount of cultivation they actually do on the soil, so a very
smart tool. So that's the GM, which I didn't put in our original
submission.

35 The recent failure of the Queensland government's changes to the
State Vegetation Act has probably taken away a lot of what our argument
was about that, but there's still a number of concerns. We do agree with
the Commission's draft recommendation 3.1 for regulation to be
40 consistent and considering economic, social and environmental factors.

An interesting lady approached me, not part of the sugar industry,
they've got a lychee farm and what they want to do, they decided to do it
in stages, not just go out and clear the bush and leave it there and then
45 slowly grow the trees and develop their farm. Unfortunately they got

5 caught because now they can't clear. So the farm now is unsustainable, in
terms of its size. They had a program to get to a point and they've been
stuck now. They're in their 70s and they certainly would like to retire, but
they can't sell it because, again, surrounded by a restriction on the
clearing. No doubt they're not the only ones that have been caught up in
the way the new changes and regulations are now imposed. It wasn't
foreseen. Land clearing has been a part of state developments in all states
in Australia and a way of developing. The sugar industry was encouraged
to get out there and clear and develop land. It was a policy of the state
10 government to do that, the old bare earth policy of burning everything and
developing the land. The regulations have now gone overboard.

What we saw with the recent - - -

15 **MR LINDWALL:** Gone from one extreme to the other.

MR THOMAS: Very much so. Too rigid and too restricted in terms -
it's a bit of a furphy about sometimes the regrowth is being classed as
native vegetation when it is, in fact, regrowth. That's what's showed up
20 in the latest SLATS reports and in Queensland a lot of tree clearing has
actually been Brigalow and regrowth, not new land being clear-felled. I
was also told that out of that, by and by, it's nothing really here, but only 2
to 3 per cent of it was actually cleared for cropping. So figures were used
to make it look really bad.

25 The heavy vehicle licencing, again, not in our submission but I did
hear the comments before and some of the questions you were asking. It
is a problem because they tried to do a one regulation fits all, particularly
with agriculture. The agricultural vehicles are just not quite - don't fit all.
30 I guess the regulations were really focused on the heavy transport industry
across Australia to try and uniform that and I understand that, trucks do
across state, go from Perth to Darwin and Darwin to Cairns, so I
understand why they need to look at that.

35 What the industry's been working on, we have an issue with wide
loads. There's a restriction on the coastal road, which is the main
highway, the Bruce Highway, to get any vehicles over 5 metres wide and
that's when you get into trouble; cane harvesters, spray equipment,
40 rippers, coulters. So as of September this year, so we've had a trial going
but now we've managed to get both state government or councils in
Queensland along the coast and the national vehicle standards to agree to
allow wide vehicles to operate on Bruce Highway. Sure, with pilots and
all that that comes with it, not a problem. Most growers will quite happily
accept that. A lot of it is because of foreign traffic, foreigners on the road,
45 we understand that and just people busy and, again, too many trucks. Of

course our problem up here is caravaners, a mass migration of southerners coming up here. They're on their way back now but, yes, a lot of traffic like that so I understand all that.

5 Now, with respect to the Commission's draft recommendation, 11.2, the competition regulation of sugar marketing, our submission does not support the recommendation. We believe that the Commission has formed the incorrect view that sugar cane growers sell sugar cane to milling companies. Growers and milling companies negotiated a cane
10 supplying agreement which deals with supply and processing of cane. It also defines how sugar cane is valued.

15 The value of sugar cane is determined by the value achieved through the marketing and the pricing of the sugar produced from that cane. So the value of cane is actually in the value discovery process, through the marketing and pricing. So that's the issue. The issue is that the growers have an economic interest in what happens to discovering that value of sugar right from the agreement they signed to the supply of the cane.

20 Now, a hundred years ago the cane price formula was developed. It's been used in the industry since then, it's worked well, no one's come up with a better way that enables to differentiate the value of what millers get and what growers get. It was actually devised out of an inquiry that, in part, not totally but in part was undertaken because of the failure of
25 milling companies to pay growers the correct value.

30 The focus of that inquiry was tariffs imposed at the time but a component was because growers just weren't getting paid. So when that Royal Inquiry, I guess it must be forefathers to you guys, the Productivity Commission, but Royal Commissions seemed to be the thing back in the early 1900s.

35 It is important that the Commission note that the formula has not changed or altered in the deregulation in 2006. So there was no intent in that process of the 2006 deregulation to change that way of how the proceeds from sugar was divided by the industry. Basically it's one-third/two-thirds, there's a couple of figures in there but basically it said that based on the assets of the mills and based on the assets of the growers it was roughly two-thirds/one-third and that's how it came to the formula
40 to divide the sugar proceeds.

45 Referring to the deregulation in 2006, the industry accepted the move away from the statutory arrangements and it was sort of bundled up because the federal government gave a restructuring package of about \$400 million, of which about \$300 million was actually spent, and so

5 there was a group formed. I think it was a group of about 34 and only about four came from the industry. Anyway, it was decided that deregulation, we'll move away from statutory marketing but the only problem, there was a stalemate and the stalemate, moving from a voluntary marketing system, so what would happen?

10 So certainly both the federal government and the state government accepted that there had to be deregulation, as part of the restructuring package, agreed that we can't keep some sort of statutory marketing or regulated marketing in there.

15 So Peter Beattie, the then Premier of Queensland, had the task and he brokered it. He brokered a deal between the milling companies and grower representatives, and that's the famous memorandum of understanding, signed off to say that the QSL would remain as the preferred voluntary marketing body. It had all the structure to take place so it became a fully industry owned marketing company and helped move along some of the issues with the DOHA agreements, but anyway - because there was no longer a statutory marketing body, so it did help with that. I just make that point that at that time the industry agreed that was the way to go.

20 Now, what's happened since? Anyway there was no argument that - the argument to try and enshrine it and continue in some sort of regulation, that was all brokered away and Peter Beattie did a good job really to get the industry to sit down and sign off on an MoU.

25 Now, you've heard my friend, Steven over there, when he spoke - that's a completed Cane Supply Agreement, backed by a Cane Pricing Agreement that it contains the ability for grower choice, so it can be done. There's no issues. This didn't cost a lot of money to produce, it's a matter of growers and the milling representatives sitting down and agreeing on the process. I really support MSF Sugar, they sat down from day 1 and said, "Look, we're here and we're going to have grower choice." Sure it wasn't easy sailing, was it Steve? But we got it through. We debated with them but basically they were very receptive. So that is the end result.

30 Yesterday we had a sign up or sign off on the agreements with our growers and basically over half the growers came in yesterday, on my area the South Johnson Mill area, and signed up. By the end of the month we aim to have all of the growers finalised. If a grower doesn't want to, that's fine. I mean if they want to go and negotiate another deal, if they think they can do something better, we don't deny them that. But this is a collective agreement and I know that's a sticking point with some of the millers, having this collective arrangement, but it is allowed,

acknowledged by the ACCC that you can have a collective negotiating agreement. But, equally, millers can also opt to do some collective negotiation if they want to, they never have.

5 I question the tactics and reasons behind some of our milling companies what, in particular Wilmar, are doing. Wilmar are just making it so difficult, I don't know why. Because, at the end of the day, and as in our submission we said, all sugar is priced through the ICE. So all sugar trade in the world is marketed. It's a very strange system, I believe, 10 because I've never, before entering the sugar industry and even within the industry a lot of people don't understand but, basically, you have to have a contract when you supply sugar, or trade sugar. It's not a deal that you sit down around the table and agree on a price and agree on some fundamentals of delivery and shake hands and walk away. You have to go 15 to the ICE, you have to get a contract, both parties have to get a contract, one to sell, one to buy. So when the physical sugar is then delivered then the contract is basically cashed in and the money transferred. So it's a very interesting way of doing it.

20 We had a series of meetings with MSF Sugar when they first announced they were going to withdraw out of pure sell, back in 2012, so we sat down with them and said, "Why do you want to do it?" Finally got to it, "We think we can get some premiums." We basically said, "What are these premiums?" And the answer was, "On about 10 per cent of the total sugar made we'll get a premium." Fundamental response, "Really 25 not worth it," not for 10 per cent of the sugar to get a few premiums on.

In our submission, right or wrong, we've got a theory about why they're doing it, only time will tell. But the sugar sent into Asia, from 30 Australia, gets a premium, gets that Far East premium. We're just maybe sceptical that that's what they're after, not to pay that and to be able to supply sugar to their clients in Asia at Australian values, not Brazilian values. We'll see, time will tell if I'm right or wrong on that one.

35 I challenge the Commission's views that the industry would be better off with the marketing companies marketing sugar. In the draft report it made a few points but I don't think milling companies marketing all the sugar will not improve farm size. I don't think milling companies marketing the sugar will help growers service large debts and I don't think 40 that milling companies marketing raw sugar will not improve the availability or stop the loss of suitable agricultural land. All of those three things are influenced by a multifactor of aspects of all of that. Milling companies marketing all the sugar they produce I don't think adds anything to change any of that.

45

5 The claim by milling companies that the amendments will cause loss
of jobs, and that was, of course, one of the points they made with the
original submissions. Now, that statement was being made when both
MSF Sugar and Wilmar were changing loco operations. All the locos
10 have two men. Sorry, I shouldn't say that, two people, because there are
some female operators. One was called a pointsman or a fireman, in the
old days, so they were changed tumblers or help when they back up and
hook up bins and that. So both of those companies have now moved to a
single operation using remote control operations of the loco.

10 So when you look at SJ's situation that's one person on every loco, on
three shifts a day, seven days a week and for South Johnson that's 155
days a season. So they were talking that the amendments were going to
lose jobs, their own actions, fine, if they want to make their operations
15 more efficient and save costs, fine. But when they were making that
statement they were actually reducing employment within the mills, I just
make that point. So you guys can do the sums, how many loss of jobs
occurring in the milling sector.

20 Now, despite the theatrics, and I call them theatrics, MSF Sugar are
continuing to invest. Sure, they're cooling their heels, and I think that's
more of a world-wide issue because Mitr Phol are huge developers in the
world, it would seem, but they are still investing. \$18 million was spent
25 this year in both South Johnson and Mulgrave Mills, so they are spending
money and they're quite prepared to do that. So even though, yes, there
were press releases and theatrics about, "No, we're stopping investment
because of the amendments."

30 Finally, I'd really like to take the Commission to task. It's not your
fault, but I think it's a message to the minister. Yes, not including the
regulation electricity in this inquiry. It's a huge burden on rural Australia
and farmers particularly and perhaps it needs its own commission of
Inquiry, electricity charges.

35 **MR LINDWALL:** Is it worse in Queensland than other states?

40 **MR THOMAS:** It's a bit hard to tell because you're only really knowing
what's happening here. One of the big things here is that that service
charge, because the electricity companies or providers, and even the
generating company, are not using the normal depreciation methods that
most businesses use, depreciations over a period of time.

45 They're continuing to depreciate at the same level every year, no
matter what. So they're just applying a depreciation and, of course, that's
a higher cost. So if you apply the same depreciation year after year on

5 everything that they own, every pole, every cross-bar, every piece of wire, every insulator at the same rate and not declining the value of that, but still have that high depreciation, that's where the extra cost is incurring. Everything has an age, so obviously in the electricity industry they don't see that things actually finish and they want to fully cover. But, like I said, that might need its own separate commission of inquiry.

10 **MR LINDWALL:** Some of that is due to other policy areas and renewable energy targets and all this type of stuff.

MR THOMAS: But maybe it all needs to come out.

15 **MR LINDWALL:** Thank you. Can I ask, obviously competing claims and Wilmar says one thing and I've heard, today, quite the opposite. What do you think would happen if Wilmar is true to its word and it cuts back investment and ultimately leaves?

20 **MR THOMAS:** Well, they'd be foolish, they've spent a lot of money. I don't think it's a company that does things like that. We heard a furphy in the recent weeks where they were saying, "Well, because of the issue of using terminals they'd build their own." That's folly. It's only a furphy. It's a tactic they would use. No, producing sugar in Australia is very good, it's very good business.

25 **MR LINDWALL:** You're confident about the future of sugar as a commodity to be sold?

MR THOMAS: Absolutely.

30 **MR LINDWALL:** I'm just asking about growth prospects.

35 **MR THOMAS:** Yes, you asked Tom before. Growth, it's interesting, but growth in the world has been around about 2 per cent per annum. It just hasn't levelled off, it hasn't spiked. It's pretty steady at 2 per cent. This coming 12 months there will be a deficit of 4 million tonnes, that's what the analysts are saying. That's due mainly to the droughts and also the turmoil in Brazil, Brazil is a bit of cot case coming up.

40 **MR LINDWALL:** Is that why prices are quite high at the moment?

45 **MR THOMAS:** Yes. Who knows where they're going to go. Certainly - that's the fundamental of the market. The market's often driven by sentiment but certainly the fundamental is the deficit. The people that give us advice are saying that some of the sugar producing countries are getting to max, in terms of available land.

MR LINDWALL: Does that include Brazil, say?

5 **MR THOMAS:** Well Brazil, they're cutting back and I think the last two
years 130 mills have closed down. Just becoming uneconomic. They
have been focused on ethanol, not so much part into crystal sugar. But it's
just the operating costs now, it just caught up with them. Their
productivity is not that great so they're struggling in terms of that. If they
10 move from manual cutting to mechanical harvesting they'll start to lose
big losses there because, unfortunately, mechanical does produce a higher
loss of cane.

The biggest producer in the world is actually India but unfortunately
they've got a lot of people, they've got people to feed. Their land
15 availability for agriculture, totally, is diminishing. China's facing the
same problem. The huge development that's occurred over there, they've
lost a quarter of their agriculture land.

20 **MR LINDWALL:** So the Australian industry is well-structured and
productive could do well out of all of that, in terms of market dynamics.

25 **MR THOMAS:** Definitely. We are the key for Asia, there's no
argument. There is some potential development to take place, Western
Australia and the Ord and, of course, up in the Georgetown area. So if
Northern Australian development does go ahead then, yes, there's some
great prospects of some very large development taking place.

30 Australia's still the best producer in the world. I mean the growers
that are here today, they know. They grow good sugar cane to
manufacture good sugar. Renowned throughout the world. Now,
customers are ringing up every day looking for Queensland sugar. That's
another side thing, I mean all this that's happening now, we're going to
lose that brand. With every miller doing their own thing, what is
35 Queensland sugar now?

MR LINDWALL: What about refining sugar into more refined versions,
rather than raw? That's not done too much in Australia?

40 **MR THOMAS:** No, it's the handling issue. They did try. The refinery
in Mackay actually devised some stainless steel containers to transport
refined sugar. The raw sugar is rough and ready, throw it on a ship and let
them deal with it at the port of where they're going. At one stage there we
were sending quite a bit to Saudi Arabia, that same thing, they were
refining sugar over there and sending it on, and they're well placed.

Better to get that product closer to the end user, rather than us try and do it here.

5 **MR LINDWALL:** So as opposed to other industries where there's quite a change from some form of what you'd call a raw sugar equivalent to a refined sugar, you don't have much change in bulk or volume, is that what you're saying?

10 **MR THOMAS:** Well, yes. There's no advantage for us here in Australia to produce refined sugar and try and sell it to the rest of the world. There's plenty of options in the rest of the world, whether it be Indonesia, whether it be Singapore or Malaysia, China, of course. It's better to send them the raw sugar and then they deal with it over there.

15 **MR LINDWALL:** GM, which I'm interested in this, is that a prospect to also reduce the problems, in respect to the Great Barrier Reef, where you're getting pressure from the environment group?

20 **MR THOMAS:** Yes, it's got great potential. I mean if the sugar cane plant can take up nitrogen better and make better use of the nitrogen and use it efficiently in the plant itself, yes. Growers would love it too, because if they only have to put out half of what they're putting out now, because unfortunately fertilisers can be very costly. So that would be of great benefit all around.

25 **MR LINDWALL:** So that's a clear environmental benefit?

MR THOMAS: Absolutely, yes.

30 **MR LINDWALL:** Because it's interesting, some people, and I'll probably find this next week, who claim that they're interested in environmental outcomes refuse to sanction GM products, which is counter-intuitive.

35 **MR THOMAS:** I think it's a problem world-wide anyway. How are we going to feed the world in 50 to 100 years' time? We've got to use science to make the plants smarter. We already know that by doing certain things we can make more food from the land that we've got, and the land is shrinking. So great problems but at the moment - cane's a bit complex, it's got 23 strands so it's not an easy one to - not like wheat or
40 the grains, which you've only got a few and they can manipulate them a bit easier. They're doing it world-wide, we're not the only one.

45 **MR LINDWALL:** May I ask one other question, which is to do with the arrangements with the millers? What about that toll type of arrangement

we spoke of earlier in the day, where you effectively treat the miller as a contractor and maybe get access if they don't have good pricing, using part 3A of the Competition and Consumer Act, the ACCC can determine a price for that?

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MR THOMAS: Yes. Again what would a mill charge to do that? And, again, what's in their best interest? They've made the investment in the mill, quite a bit of investment, and they would look to obviously make a recoup of that investment. Then you've got, how do you handle it? How do you move it from the mill to port? There's a few other issues. It sounds nice, it sounds the right way to do it, but I think there's more complications. I mean we've looked at how we might improve the handling of sugar cane. I mean there's no guarantee, the mills do not guarantee anything.

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Back in the early 2000s there was a sugar mill that went broke. There was still \$25 million of the value of the sale of the sugar and the proceeds to come back to the cane, it went into receivership. There was no guarantee at all of that \$25 million to get paid to the growers. We actually work with MSF Sugar to look at ways of doing that. Basically they're saying, "We're a strong company, Mitr Phol behind us, look you can pretty well be sure that we're okay." I'm not too sure about other ones, like Rocky Point or some of the other smaller ones, Arisers, we don't know. If South Johnson went broke, very real possibility.

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Perhaps we should have some system of saying, "Well, the mill doesn't own the cane until they fully pay for it." That's used in a lot of industry, the transfer of ownership of the sugar cane is not complete until full payment is received, so there's a couple of other ways but we're happy, generally, the way things are as long as the growers have that - - -

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MR LINDWALL: As long as the arrangements are sustainable. You said, earlier, I think, Wayne, that smaller farms have some advantages, are more nimble, is that right?

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MR THOMAS: No, I didn't say that, no.

MR LINDWALL: Would you agree with that comment? Are there economies of scale in farming and what's the minimum efficient scale?

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MR THOMAS: Farmers operate differently. In our area, South Johnson, half the farms are under 5000 tonne but if we didn't have them we wouldn't have an industry. The flexibility they have is that they can go and work for the council driving a truck, or they can work in the mill.

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MR LINDWALL: So they're like hobby farms, some of them?

5 **MR THOMAS:** Well, for 5000 tonnes, a couple of hours a day on the weekend. If you contract all the big work out, the planting and the
10 harvesting, that's all contracted out anyway, yes, they can do it and they can have a second job so there is a place for small farms. When you start to get bigger, yes, it's more complicated. Often then you have to start employing. I remember when I used to work in Herbert I had two growers come to me, two brothers, and they wanted to buy another farm. "Why?"
15 "We've got 10,000 tonnes but we're sitting around in the shed looking at each other."

20 They wanted more, to keep busy. It depends on your operation. It's not a blanket comment that you can make. Small farms have their place, whether or not they're a cost or a burden to the industry, that's been
25 through a number of inquiries and investigations. But if they're happy, fine. There's a lot of small farms, there's postage stamp farms as well, it's incredible. But they're happy growing some cane.

30 **MR LINDWALL:** As long as they're done relatively cleanly and not imposing costs upon other producers.

35 **MR THOMAS:** Some may say that because they have to be serviced, but they're quite happy doing it. I remember when I first went to the Johnson there was a grower who was going to retire and he asked me, "How small a farm can I have?" And I said, "Well, it doesn't really matter." And I said, "Why?" He said, "I'm thinking of retiring but I want to keep 2 hectares." I said, "Why?" He said, "Something to do." So just to keep occupied.

40 **MR LINDWALL:** We better leave it there, Wayne, thank you very much. I always offer if anyone wants to have a minute or two to say anything finally, they're welcome to. No one wants to. All right, in which case we'll have to adjourn this hearing and we can resume in Hobart next week, if you're interested in hearing about genetic modification. Thank you.

45 **MATTER ADJOURNED AT 3.07 PM UNTIL
TUESDAY, 30 AUGUST 2016 AT 9.00 AM**