

**NSW CANE GROWERS  
ASSOCIATION INC**

P O BOX 27  
WARDELL NSW 2477  
TELEPHONE: (02) 6683 4205 • FAX: (02) 6683 4503

**NEW SOUTH WALES SUGAR MILLING  
CO-OPERATIVE LIMITED**

ABN 52 052 052 209

CORPORATE OFFICE  
SUITE 1, LEVEL 1  
CNR MARTIN & RIVER STREETS, BALLINA  
NSW 2478, AUSTRALIA  
TELEPHONE: (02) 6681 2700 • FAX: (02) 6681 2799

14<sup>TH</sup> October 2013

IPART  
PO Box Q290  
QVB Post Office NSW 1230

**To Whom It May Concern**

**SUBMISSION TO THE IPART REVIEW OF FUNDING FRAMEWORK FOR LOCAL LAND SERVICES NSW**

**Overview**

The Sugar Cane Industry in New South Wales is limited by climate to the three most northern coastal floodplains of the State, being the Tweed, Richmond and Clarence Rivers. The industry has some 378 cane growing businesses producing around 6% of the national sugar cane yield.

NSW cane growers hold around 34,000 hectares of land for production of sugar cane, with an average holding of round 90 hectares. The industry accounts for \$230 million of regional economic output with total employment estimated at 2,200 including 450 mill workers and 600 cane farmers. The New South Wales Cane Growers Association includes over 99% of cane growers in New South Wales.

Sugar cane grown in NSW is processed at one of three grower owned mills located at Condong, Broadwater or Harwood. The mills are owned by the New South Wales Sugar Milling Co-operative Ltd.

The submission provided in this paper represents the industry wide view of the IPART *Review of funding framework for Local Land Services NSW*.

**Summary**

In its Review of funding framework for Local Land Services NSW, IPART recommends *all current exemptions from rates for sugar cane growers and intensive poultry should be removed*.

The Sugar Cane Industry strongly disagrees with this recommendation on the following basis:

- The industry has an exemption on paying the levy based on very solid principles and those principles have not changed.
- The industry is doing a highly effective job in mitigating disease and disease risks to and from the industry via its own highly specialized local land service functions which are fully funded and well-organized with a team of highly qualified and skilled staff.
- The industry conducts its own *local land services* and has the capacity to react and respond to specific issues effectively and efficiently and our very serious concern is that the Local Land Services will not have this capacity due to a lack of specialist skills and limited resources.
- NSW cane farmers make a large annual investment (forecasted at \$817,200 in 2013) in the form of statutory and contractual levies for the provision of the types of local land services required of and by the NSW sugar industry. This investment is matched by the Millowner taking the total investment to \$1.6 million.
- The industry views the proposed levy as an additional and unnecessary cost burden that cannot be justified on the basis that the services proposed to be delivered would be inferior and less effective than those that it currently provides.
- Imposition of a local land service rate in any form will in fact bring about an externality effect whereby more resources are allocated to those local land services than are economically efficient. This outcome is entirely at odds with the objectives of the IPART.
- The industry strongly supports the need for a whole of industry exemption. Given the industry's demonstrated capability in self-assessment, it would be administratively efficient to provide the industry with the ability to make broad scale exemptions.

The industry takes the strong view that the statutory exemptions should continue, and supports the Local Land Services exemption provisions accommodating industry wide self-assessment for exemptions.

### **History of the Sugar Cane Exemptions**

In 1985 cane farmers received an exemption from payment of pasture protection Board ratings, through an amendment to the then Pastures Protection Act. The exemption was granted on the basis that the then Disease and Pests Board, established by the sugar industry for the sugar industry, at significant cost to the sugar industry, was doing a highly effective job in mitigating disease and pest risks to and from the industry. The skill and qualifications of the then Disease and Pests Board staff were well recognized and the Department was well respected by the then Department of Agriculture.

Since 1985, there have been a number of reviews of the rural lands board legislation and the rating system used to fund it. Each time it seems the issue of the exemption enjoyed by the sugar cane industry arises, and each time the industry has been able to raise awareness that unlike other industries, the sugar cane industry is highly specialized in its requirements for pest and disease control, and to that end the industry have always been fully self-sufficient

in funding those functions and has delivered an effective and efficient service in relation to managing pests and diseases in sugar cane.

Following a review of the Pasture Protection Boards in the late eighties, the industry again made representations on its self-funding structure with regard to pest and disease control and management, and again received a very clear recognition that the general rate applicable to other industries was not payable by the sugar cane industry. For example, it is noted in correspondence from the Minister for Agriculture the Hon. Ian Armstrong, "There is no intention of Board rates being reintroduced on land used for sugar cane production".

The NSW Sugar Industry takes the view that while there has been some change in the structure of the government bodies of LHPA and CMAs, there is no change in the manner in which the sugar industry is addressing its local land issues. While the Cane Protection and Productivity Boards no longer exist, their functions have been amalgamated into the Agricultural Services Department within NSW Sugar. Agricultural Services now provides a comprehensive and professional Crop Protection and Extension service to the sugar industry in NSW and is fully funded by the sugar industry. In addition the sugar industry contributes funds to Sugar Research Australia which incorporates most of the roles and functions that were previously provided by the Sugar Research and Development Corporation and Bureau of Sugar Experimental Stations. Plant breeding and biosecurity are a key component of this.

The sugar industry in NSW delivers and funds its own highly specialized local land service functions with a team of highly qualified and skilled staff and a well-organized structure and finds the recommendations by IPART to remove the exemption for the sugar cane industry highly objectionable.

### **A Specialised, Unique and Self-Funded Industry**

In the review phase of the proposed cost recovery framework, IPART recommend the LLS should understand the problem before confirming that it should take any action. Whilst the industry agrees with this concept in principal, the industry take the view that the LLS is not able to adequately undertake a review of the *local land services* required in relation to the sugar industry.

The industry is a highly specialized with each stage of the value chain for sugar production utilizing labour and capital designed and operated for the specific purpose of sugar production. The farming stage of sugar cane production is also highly specialized, with significant research undertaken and ongoing into profitable and sustainable cropping systems; soil and water management; nutrient management; weed management; plant breeding; and pest and disease control.

Cane Farmers and the Millowner recognized the need for these highly specialized skills very early on in the development of the industry. Today, NSW cane farmers make a large annual investment (forecasted at \$817,200 in 2013) in the form of statutory and contractual levies of \$0.60/tonne of cane produced, for the provision of the types of *local land services* required of the NSW sugar industry. This investment is matched by the Millowner taking the total investment to \$1.6 million.

The NSW Sugar Agricultural Services Department was formed in 2012 following the windup of the individual mill based Cane Protection Productivity Boards and the devolution of BSES extension services to the regions. An Agricultural Advisory Committee was also formed to provide oversight and strategic direction. The Committee consists of six grower representatives elected by the growers, three miller representatives appointed by the New South Wales Sugar Milling Co-operative and is chaired by a grower.

The Agricultural Services Department is funded by a levy paid by the growers and the NSW Sugar Milling Co-operative and provides professional Extension Services; an Approved Seed program; and pest and disease control services to the NSW industry. The department is funded through a levy paid equally by all growers supplying sugar cane to the Co-operative's mills and the NSW Sugar Milling Co-operative.

Details of the Agricultural Services department are:

- Annual operating budget of \$880,000
- Six permanent employees including
  - Three professional degree qualified extension officers;
  - Three experienced Crop Protection Field Officers (one degree qualified)

The industry has maintained this level of self-sufficiency and made this order of investment each year for many years and today implements the findings of research in sustainable and profitable sugar cane production through a NSW Sugar Industry Farming Code of Practice and NSW Sugar Industry Best Practice Guidelines for Acid Sulfate Soils.

In 2013, key industry issues are being addressed solely by the levy funding partners, with no assistance by the NSW State Government and include:

- Identification and hazard reduction planning for the Red Witchweed, a parasitic plant with hosts including sugarcane;
- Participation in the SRA plant breeding program to improve productivity and mitigate disease and pest threats;
- Compliance audit of Acid Sulfate Soil Drainage Management Plans;
- Monitoring and dissemination documentation of the yellow canopy syndrome which is creating significant concern to sugar cane producers in Queensland

This highlights the commitment and investment that the NSW industry has made, and continues to make, in meeting its obligations and needs in relation to matters that would otherwise fall within the local land services function. It is important to note that, unlike other primary producers, the sugar industry has received no funding support or services from the LHPA, DPI Extension Services or CMAs throughout this period.

Whilst it is inequitable that the NSW Sugar Industry has received no agricultural extension services from the DPI in its own state of NSW, the industry has accepted this situation and funds its own extension services. The result is that the CMA, LHPA and DPI Agricultural Extension are not and have not been staffed with skilled sugar industry staff, and to that end, the LLS (made up of CMA, LHPA and DPI Agricultural Extension Staff) will not have the

capacity to understand and review the local land services required and impacted by the NSW Sugar Industry.

Accordingly, the industry take the view the LLS will not be capable of implementing the framework for the NSW Sugar Industry, the industry itself is in the best position to implement its *local land services*, and the statutory exemption should remain.

### **Industry as Impactor/Risk Creator**

The NSW Sugar Industry has a history of self-funding both those local land services of which the industry can be considered as an *impactor or risk creator*, and those local land services for which the industry will benefit, ie a *beneficiary*.

By way of example, where the industry had a role of *impactor/risk creator* in relation to acid sulfate soils, in keeping with our self-sufficient approach, the industry was pro-active in its management of acid sulfate soils on cane lands. In recognition of those efforts, the sugar industry was delegated capacity to manage on-farm aspects of acid sulfate soils via a self-regulation scheme. The industry now controls the on-farm management of acid sulfate soils through a unique industry-government self-regulation scheme whereby the industry is able to demonstrate compliance with a wide range of performance conditions, such as every farm having an acid hazard and drain management plan and annual audit of compliance. This year the industry will also focus on weed control impacts, through initiatives to address herbicides, technique and timing of treatments.

The industry takes the view it has demonstrated its ability to self-regulate those activities for which it creates impacts, and will continue to do so.

### **Industry as beneficiaries**

The NSW Sugar Industry is well organized in its ability to identify opportunities to capitalize on benefits of addressing *local land service* problems. This year the industry will invest approximately \$880,000 in its NSW Agricultural Services Department.

In its recent strategic plan, the Agricultural Services Department will address *local land services* type issues through focusing on initiatives such as:

- targeted extension programs including improved nutrient management, ratoon management, variety trials and drainage improvement to increase productivity and natural resource management outcomes;
- increasing uptake of clean seed, disease control for Smut, Ratoon Stunting Disease, Fiji gall, Pachymetra, Chlorotic streak disease to address biosecurity threats.

The industry take the view its Agricultural Services Department and Sugar Research Australia are best placed to identify benefits from addressing *local land service* problems, and will continue to do so.

### **Cost Benefit Analysis and Competition with Existing Local Land Service Providers**

As already outlined, the NSW Sugar Industry has its own *local land service* provider, the NSW Agricultural Services Department. The Agricultural Services Department provides regulatory and non-regulatory *local land services*. The Agricultural Services Department aims to improve sugar cane yields and thereby gross margin by more than the cost of the services it provides.

In assessing the potential benefit and costs to the industry of the *local land services* available as a result of the levy, the industry considers the net cost and benefits will return a loss situation to the industry. In the absence of other information, the current general rate has been used as the cost to the industry. A general levy rate on sugar cane farm land in the Northern Rivers region would equate to approximately \$47,000 per annum across the industry.

Should this levy be imposed on the industry then the industry would either have to reduce funding to the Agricultural Services Department by a commensurate amount or be satisfied that the investment in local land services was justified on the basis that the services delivered would be superior or more effective than those that it currently provides. The NSW Sugar Industry takes the view that it is highly unlikely that the proposed local land services levy will deliver a better result. Removal of the statutory provisions exempting the industry from this levy would therefore in effect contravene the sufficiency and additionality principles proposed by IPART where beneficiaries would not capture sufficient benefit to justify charging for the service.

The NSW Sugar Industry take the view that its Agricultural Services Department and Sugar Research Australia are efficient providers of *local land services*, and accordingly statutory exemptions or industry wide exemptions for the NSW Sugar Industry for payment of local land service levies are justified.

### **No economic necessity for regulatory intervention in Sugar Industry**

The IPART Review of funding framework for Local Land Services NSW is concerned with identifying an "efficient" rating base, and sets the objective for the funding framework being "to improve the allocation of resources in an economy, thus contributing to allocative efficiency". IPART suggest that cost-recovery and cost-reflective-pricing is an appropriate mechanism to reduce the potential for government to provide services that cost more than the value consumers place on them, or more than the benefits they create.

This principle is directly reflected in the proposed funding framework wherein the LLS are required to firstly and foremost apply a market failure test in determination of whether the LLS should intervene before then designing a solution and a fee, rate or levy to be collected to fund the solution.

Whilst intuitively, for the reasons outlined above, one will conclude that the provision of local land services to the NSW Sugar Industry will bring about a duplicate allocation of resources and in doing so contravene IPART's objective, this phenomena can also be explained with reference to the market failure test which IPART identify as the indicator of there being a role for government intervention in the market.

The global sugar industry has recognized the need to promote best practice, and support a healthy and sustainable environment. The global industry has developed an international standard for sustainable best practice sugar production, the Bonsucro certification. Bonsucro certified products indicate best management practice across the sugar supply chain including sustainability in biodiversity, ecosystem impacts, legal compliance, human rights, production and processing and continuous improvement. The NSW Sugar Industry is Australasia's first Bonsucro accredited supplier. To achieve the Bonsucro accreditation the NSW Sugar Industry has been audited and demonstrated compliance with approximately 70 indicators of sustainable best practice in sugar production, including on cane farms. Many of these indicators are relevant to the regulatory and non-regulatory local land services to be undertaken by the LLS.

NSW Sugar Industry is characterised by near perfect market competition with firms and farmers being price takers, a very high degree of product homogeneity and low barriers to entry and exit. Using the definition, reserved in economics for allocative efficiency, this near perfect market competition will deliver the efficient allocation of resources to the production process. Logically then, the NSW Sugar Industry production process driven by market forces allocates the efficient quantum of resources to *local land services* (in order to maintain its Bonsucro accreditation). The industry achieves as near to allocative efficiency as is possible in its current form thereby achieving IPART's objective without imposing government intervention.

Imposition of a local land service rate in any form, will in fact bring about an externality effect whereby more resources are allocated to those local land services than are economically efficient. This outcome is entirely at odds with the objectives of the IPART.

As can be seen from table 1, all of the statutory functions of the Local Land Services are currently being provided by the NSW Sugar Industry Agricultural Services Department.

This provision of services provided to NSW Sugar industry participants in table 1 will be enhanced as the national sugar industry's research and extension body, Sugar Research Australia, operationalizes its strategic plan, and elaborates on the manner in which it intends to deliver its statutory mandated priority areas of productivity and adding value, supply chain and markets, natural resource management, climate variability and climate change and biosecurity.

The NSW Sugar Industry take the view that the application of the market failure test to each and every one of the regulatory services of the Local Land Services will result in the same conclusion, ie. There is not a role for the Local Land Services in the provision of *local land services* to the NSW Sugar Industry.

Local Land Service Function (As defined in Local Land Services Bill 2013)	NSW Sugar Industry Service Provider of Function	Example of the provision of this service by current provider to the NSW Sugar Industry
Agricultural production	NSW Agricultural Services Committee and NSW Agricultural	Initiatives such as targeted extension, improved nutrient

Table 1 – Local Land Services Functions Serviced by NSW Sugar Industry Service Providers		
Local Land Service Function (As defined in Local Land Services Bill 2013)	NSW Sugar Industry Service Provider of Function	Example of the provision of this service by current provider to the NSW Sugar Industry
	Services Department	management, ratoon management, , variety trials and drainage improvement
Biosecurity	NSW Agricultural Services Committee and NSW Agricultural Services Department	Projects in 2013 include increasing uptake of clean seed, disease control for Smut, Ratoon Stunting Disease, Fiji gall, Pachymetra, Chlorotic streak disease
Chemical residue prevention, management and control	NSW Agricultural Services Committee and NSW Agricultural Services Department	Weed control projects in 2013 include impact, herbicide, technique and timing initiatives
Natural resource management & planning	NSW Agricultural Services Committee and NSW Agricultural Services Department	Acid Sulphate Soil Drainage management plans Strategic Plan 2013
Travelling stock reserves and stock watering places	Not applicable to the Sugar Industry, stock are incompatible with Sugar Cane Production	
Control and movement of stock		
Animal welfare		

### Implementation Impractical

In the unusual event that a market failure exists, the Local Land Services will find it is unable to effectively understand the activity required to address the problem or unable to resource the costs of understanding the problem.

In the case of the Sugar Cane Industry of Queensland, there is much written of the successful measures undertaken by the Sugar Industry, the Queensland and Federal Government to address the negative externalities of the cane industry with regard to impacts on the Great Barrier Reef. The State and Federal Governments developed a Reef Plan, out of which the signature program "Reef Rescue" was initiated. The Reef Plan like IPART, is concerned with the economic functionality of measures to change land management behaviour. After a series of audits, the Reef Plan is generally seen to be making a positive contribution to the land management changes that are required to achieve the Reef Plan outcomes.

It is widely regarded by the Sugar Industry and the Scientific Community that the key element to the Reef Plan being able to bring about wide scale land management practice change has been a commitment to scientific rigour and consensus. This bought about an understanding of the relative effectiveness of land based actions and their link to key principles for natural resource management improvement, and importantly, it allowed the identification of parties responsible for creating a risk, or the *impactor*. Without this foundational scientific consensus and understanding of the link between land based activity



and improvement, it is not possible to implement the IPART framework across the NSW Sugar Industry.

The IPART framework assumes that all activities will be able to be attributed to a *risk creator/impactor* and/or a *beneficiary*, however it does not address the gap of foundational scientific work required to make these determinations.

In contrast, the NSW Sugar Industry leverages the investment of the Queensland State Government and conducts its own research into activities required to address land based issues in accordance with its Bonsucro Accreditation. Bonsucro certified products indicate best management practice across the sugar supply chain including sustainability in biodiversity, ecosystem impacts, legal compliance, human rights, production and processing and continuous improvement. The NSW Sugar Industry, as Australasia's first Bonsucro accredited supplier is able to sell its credits in Bonsucro certification on a global market because of its achievement in these areas.

### Exemptions

The NSW Sugar Industry takes the strong view that there is no justification for removing the statutory exemptions the industry currently receives. As outlined above, the proposed IPART cost recovery framework applies no more to the sugar industry today, than the Pasture Protection Board rating system did in 1985 when the industry was first granted exemption.

The industry also considers very strongly the need for a whole of industry exemption. The administrative inefficiencies for each of the 378 cane growing businesses to make submission to the LLS will be onerous for the industry and the LLS. Given the industry's demonstrated capability in self-assessment, it would be administratively efficient to provide the industry with the ability to make broad scale exemptions. In the absence of statutory exemptions, which is preferred by the sugar industry, it would be preferable to have industry wide exemptions available on a self-assessment basis, given the specialized skills required to make such determinations already exist in the sugar industry.

In closing, the NSW Sugar Cane Industry take the very strong view that the IPART review provides no justification for removing the exemptions the NSW Sugar Industry receives with respect to land service ratings. The industry looks forward to discussing these concerns at the IPART round table meeting scheduled for 28<sup>th</sup> October in Sydney.

Yours faithfully



MA Poel  
Principal Executive Officer  
NSW Cane Growers Association Inc



CG Connors  
Chief Executive Officer  
NSW Sugar Milling Co-operative Limited