



CANEGROWERS

SUBMISSION

TO THE

PRODUCTIVITY COMMISSION INQUIRY

INTO

IMPACT OF COMPETITION POLICY  
REFORMS

ON

RURAL AND REGIONAL AUSTRALIA

6 November 1998

# Contents

<b><i>Summary of Key Impacts</i></b>	<b>2</b>
.....	
<b><i>Recommendations</i></b>	<b>3</b>
.....	
<b><i>Importance of Queensland Raw Sugar Industry to Country and Metropolitan Australia</i></b>	<b>4</b>
.....	
<b><i>Influence of NCP on the 1996 Sugar Industry Review</i></b>	<b>5</b>
.....	
<b><i>Direct Impact of NCP Reforms on Queensland Sugar Industry</i></b>	<b>7</b>
.....	
- short to medium term future	
- tariff	
- domestic sales at export parity	
- acquisition and single desk selling	
- removal of pool price differential	
<b><i>Effect of NCP Influenced Changes to Sugar Industry</i></b>	<b>12</b>
.....	
- reduction in income	
- uncertainty and reduced investment	
- destabilisation to grower-miller balance	
<b><i>Related Reforms</i></b>	<b>13</b>
.....	
- water	
- effect of NCP on input prices	
- other aspects	
<b><i>Summary</i></b>	<b>15</b>
.....	

### Summary of Key Impacts

- A direct impact and consequence of the NCP Reforms on the Queensland sugar industry is significant uncertainty about the short to medium term future direction of the industry.
- The abolition of the tariff has resulted in a reduction in income of each Queensland cane grower of about 35 cents per tonne of cane in each future year. For a typical farm size of 6,500 tonnes of cane, this means a loss in income of \$2,275 each year.
- Many growers have also had their income reduced further by up to an additional 55 cents per tonne (\$3,575 for a full production adversely affected 6,500 tonne cane farm) as a result of income redistribution from the removal of pool price differential.
- CANEGROWERS asserts that the assumption that markets always transfer benefits is incorrect.
- CANEGROWERS believes that the public benefit test in practice must include all of the community, including those that suffer adversely, in the determination of a net public benefit. Further, consideration must be given to those aspects which are difficult to quantify.
- CANEGROWERS believes that there is inconsistency and in fact confusion in relation to the application of NCP principles to the tariff issue with other sectors of the economy.
- CANEGROWERS believes action is required by the Federal Government to strengthen Australia's countervailing and anti-dumping laws.
- The NCP public benefit test conceptually has merit based on its results to maintain acquisition and single desk selling, however concerns remain about the application of the public benefit test to other issues
- The NCP influenced review recommendations has clearly had adverse impacts on regions which have already been faced with difficulties for other reasons.
- CANEGROWERS believes the NCP timetable is being used as a lever to rush reforms and minimise time for adequate consultation and negotiation, particularly in relation to water reforms.

## Recommendations

- CANEGROWERS recommends the Federal Government follow the SIRWP recommendation number 1.1 of no further reviews of the Queensland raw sugar industry for a further 10 years.
- CANEGROWERS recommends the Productivity Commission urgently propose to the Federal Government an assistance package for those sugarcane producers who:
  - a) will suffer a net reduction in income as a result of the removal of the pool differential, and
  - b) are experiencing lower sugar yields per hectare (ie lower than the average for the previous 5 years) as a result of adverse weather conditions, and
  - c) will receive a lower cane price as a result of the global economic downturn causing a significant drop (ie greater than 15%) in Queensland raw sugar prices, and
  - d) are experiencing reduced income due to abolition of the sugar tariff.

Suggestions for assistance include temporary tax credits and low interest loans.

- CANEGROWERS also recommends the Sugar Industry Infrastructure Package be reviewed and extended to ensure priority is given to projects in those areas where the majority of growers have their income reduced due to the four points above.
- CANEGROWERS recommends the Federal Government carry out a detailed review of the reduction in services, and increases in costs of these services, in country Australia, as compared with those services in metropolitan Australia. The review would provide clear evidence of such effects rather than relying on anecdotal evidence. Areas to be examined would include telecommunications, electricity, financial services, and roads and transport.
- CANEGROWERS recommends a review be established to properly identify the actual cost for rural irrigation water.
- CANEGROWERS recommends that local management of rural irrigation adopt a whole systems approach where the Local Management Committee manages the dams as well as the distribution systems.
- CANEGROWERS recommends the time frame for reforms be adjusted to allow for sufficient time for consultation and negotiation.
- CANEGROWERS recommends that the Federal Government and all other Australian Governments meet, in the form of a Council of Australian Governments (COAG) Mark 2, to review and consider the issues raised in the Productivity Commission Review. This would include an assessment of benefits and losses, with a view to a new NCP process and timetable.

## **Importance of Queensland Raw Sugar Industry to Country and Metropolitan Australia**

Production of raw sugar is one of Australia's most important rural industries, and as Australia's second most valuable crop commodity after wheat, directly and indirectly contributes over \$4.5 billion into the economy each year. With about 95% of Australian raw sugar production, the Queensland raw sugar industry is therefore a major contributor to the Australian society.

The industry plays a major role in the commercial and social structure of many of Queensland regional communities including the major centres of Cairns, Townsville, Mackay, Bundaberg and Maryborough. Many of the smaller coastal communities such as Mossman, Innisfail, Ingham, Ayr and Nambour are almost wholly dependent on the sugar industry. It follows then that any change in the industry will have a dramatic impact on these communities as there are no other viable options for the vast majority of land now under sugarcane. CANEGROWERS estimates that nearly 20,000 households have a member employed directly in growing, milling, storage and marketing. It is estimated that another 26,000 people benefit indirectly from the raw sugar industry.

Sugar is Australia's fourth largest export-earning agricultural industry, accounting for over 20% of crop product exports. Virtually all Australian raw sugar exports come from Queensland, with 85% of Queensland's total raw sugar production exported. By the year 2000 exports are expected to account for over 90% of output. The Queensland raw sugar industry is therefore exposed to world prices more than virtually any other producer. The price received for Queensland production is based on, and fluctuates with the world price.

Heavy export dependence has resulted in an industry which is an efficient, competitive, low-cost producer of a high quality product. Further, the Queensland industry is now the least supported of the world's major sugar industries.

Many of the world's major importers prefer to source their sugar from Queensland because of its reputation for quality, innovation, reliability and service. The industry is the preferred supplier to the majority of its customers who collectively account for over 75% of world sugar trade.

The majority of Australia's raw sugar supply is derived from Queensland.

Throughout the nearly 150 years of history of the Queensland raw sugar industry there has been considerable change in the levels and methods of production and marketing. The industry has grown in size and developed an industry market structure to manage the interests of grower and miller, customers and competitors. This change has occurred in response to changing industry and world market requirements and is a direct result of the result of the industry's ability to respond and recognise requirements for change.

Figure 1

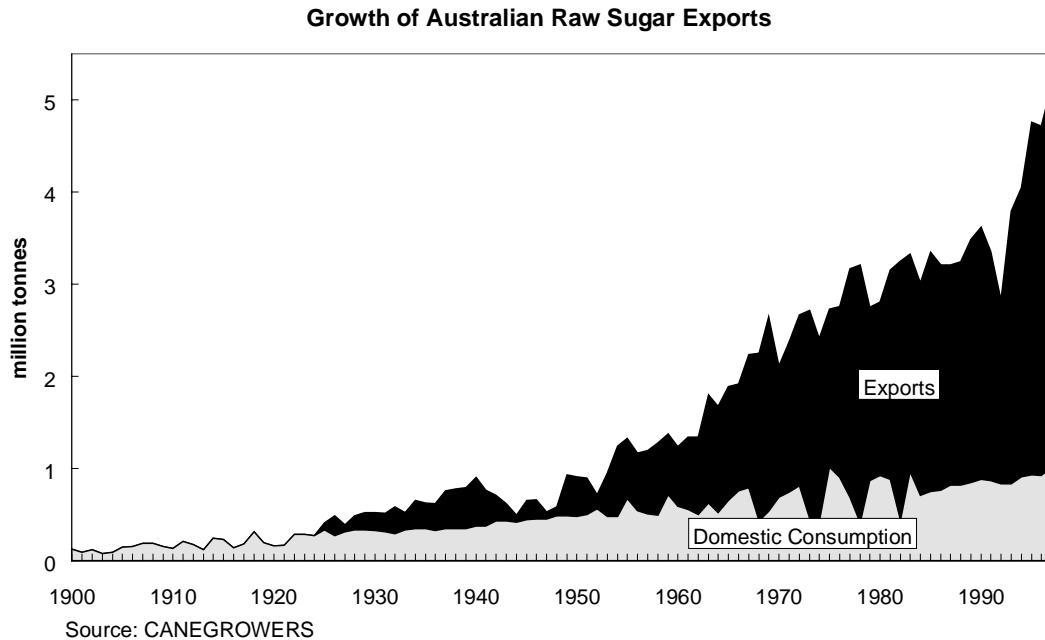


Figure 1 shows the spectacular increase in sugar exports since Australia first entered the export arena in 1924.

Since that time there has been a steady growth in exports from 1950 to 1974 with this growth, underpinned by the British Commonwealth Sugar Agreement which provided stable prices. After the United Kingdom joined the European Common Market, Australia was forced to develop new export markets at less certain prices. As a result, the industry worked hard to secure new customers in growth markets such as Japan, Canada, Korea, Malaysia, China and the USA. This ability to secure customers was as a result of the industry structures at the time.

The Queensland raw sugar industry is now one of the world's largest sugar exporters. It accounts for about 16% of world trade.

Many rural and regional areas of Queensland thus have over many years developed a dependence on the Queensland raw sugar industry, and significant benefits are also provided to metropolitan Australia.

### **Influence of NCP on the 1996 Sugar Industry Review**

Since 1977 there have been 12 major reviews of the Queensland raw sugar industry. The Boston Consulting Group Report (1996) briefly outlines these major reviews. The *Sugar Industry Act 1991*, was established after the May 1990 review of sugar industry arrangements by the Fitzpatrick Sugar Industry Working Party. Following an Industry Commission review of the sugar industry, the Federal Government established the Sugar Industry task force. Included in the recommendations from the Federal Government Sugar Industry Task Force was to maintain the tariff until a further review

in 1996, and to maintain single desk selling and acquisition until 1996. For the purpose of those reviews, in 1995 the Queensland and Federal Governments established the Sugar Industry Review Working Party (SIRWP) to jointly review the tariff, the *Sugar Industry Act 1991*, and the *Sugar Milling Rationalisation Act*.

Also in 1995, the Council of Australian Governments agreed to a package of measures, the National Competition Policy. As a result, the NCP can be said to have provided direction and boundaries to the review of the 1996 Sugar Industry Review.

Based on the requirements of the Council Of Australian Governments in respect of NCP, the SIRWP summarised the scope of the review as follows (*SIRWP report p318*):

- (a) *To review the need for a tariff on raw and refined sugar. In assessing whether the existing tariff should be retained, reduced, or eliminated, the Working Party will focus primarily on the benefits and costs to the general community of such actions. Impacts on the raw sugar industry are a component of the general community impacts. The Commonwealth Government will consult directly with other States on this issue as well as through this review process.*
- (b) *To review current legislative arrangements for the promotion and regulation of the sugar industry in Queensland and to investigate alternative arrangements. The objective of any new legislation (the current legislation is the Sugar Industry Act and the Sugar Milling Rationalisation Act) on this matter should be to facilitate the sustainable development of an internationally competitive, export-oriented industry, which benefits both the industry's participants and the wider community.*

The NCP requirements were thus interpreted as follows (*SIRWP report p319*):

- *identify the nature of the restrictions on competition*
- *analyse the likely effect of the restrictions on competition and on the economy generally*
- *assess and balance the cost and benefits of each restriction*
- *consider alternative means for achieving the same results, including non-legislative approaches.*

In other words, the SIRWP was to examine and review all issues and regulations and structures in the Queensland sugar industry that were prima facie anti-competitive.

The SIRWP used an outside consultant, The Boston Consulting Group (BCG) to look at each of the areas above. The BCG prepared a comprehensive summary of their findings, entitled "Report to the Sugar Industry Review Working Party - Analysis of Issues and Identification of Possible Options.

The SIRWP was comprised of an independent chairperson and representatives from each of the following organisations: CANEGROWERS, Australian Sugar Milling Council (ASMC), Australian Canefarmers Association (ACFA), Department of Primary Industries (DPI), Department of Primary Industries and Energy (DPIE), Sugar Users Group—Australia and the Queensland Sugar Corporation (QSC).

### **Direct Impact of NCP Reforms on Queensland Sugar Industry**

#### Short to Medium Term Future

Guided by the principles of NCP, the SIRWP provided a package of recommendations in its report *Sugar Winning Globally*. However to date many of the SIRWP recommendations are yet to be implemented. In particular, there is currently no replacement legislation for the *Sugar Industry Act 1991*. This was despite the original intent of the Queensland and Federal Governments for new recommendations from the review to take effect from the 1997 season. The new legislation did not operate for the 1997 season, the 1998 season and it is extremely unlikely to be in effect for the 1999 season. This has created significant uncertainty within the sugar industry.

- **A direct impact and consequence of the NCP Reforms on the Queensland sugar industry is significant uncertainty about the short to medium term future direction of the industry.**

A reason for this situation is the differences in interpretation of the SIRWP recommendations held by the two major sectors of the Queensland raw industry, the growers and the millers. One interpretation is to regard the SIRWP Report as a framework document from which to base new legislation. A second interpretation is that the Report is a legalistic first draft of the new legislation. A third more contrasting interpretation is the Report and its associated recommendations is a document to generate further discussion, which means that new legislation may not incorporate all of the recommendations of the Report. The fact that these three views have been held by two major players in the development of legislation, CANEGROWERS and ASMC, has made negotiation difficult.

Thus while the NCP provided a set of guiding principles in the development of the recommendations by the SIRWP, it was and still is unclear as to how to implement the recommendations and to incorporate NCP principles into associated legislation. The difficulties in negotiation (resulting from the differences in interpretation), and the lack of clarity in applying NCP principles to legislation, has made the legislation difficult to frame. It appears that to overcome the uncertainty a very prescriptive and detailed legislation will be developed.

Despite there being some uncertainty in the major guiding components of the Queensland sugar industry, that is the new legislation, some changes have already occurred. These are discussed below.



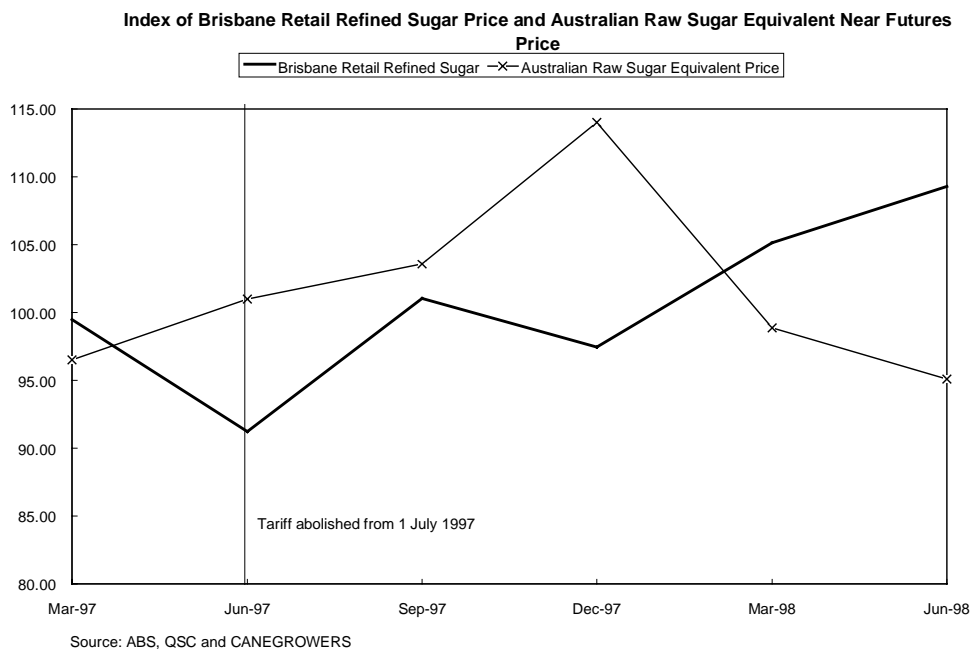
## Tariff

Perhaps the highest profile of these changes is the removal of the tariff on imports of raw and refined sugar into Australia. The reason for this recommendation (recommendation 2.2) is “to improve the international competitiveness and sustainability of the industry to implement the principles of National Competition Policy” (SIRWP p3). According to the SIRWP (SIRWP p2), “The implementation of this recommendation is expected to result in a decline of raw sugar industry revenues of \$26.7 million annually”. Thus the SIRWP acknowledged that this recommendation, as part of the principles of NCP will reduce the incomes of raw sugar producers throughout Australia. CANEGROWERS estimates that this reduction in income is about 35 cents per tonne of cane per year, or at least 1% of growers income, for all Queensland growers for the future.

- **The abolition of the tariff has resulted in a reduction in income of each Queensland cane grower of about 35 cents per tonne of cane in each future year.**

In making the recommendation, the SIRWP suggested that the benefits of the tariff, that is the estimated \$26.7 million, is in fact a cost which is ultimately transferred to the consumer in the form of higher prices for end products. However it is debatable whether the consumer has derived any benefit from the implementation of this recommendation. Figure 2 provides a time series of sugar prices, and shows that since the abolition of the tariff, the price of refined sugar has not shown any obvious benefit due to abolition of the tariff. Further it appears the price of raw sugar has moved inexorably upwards, so there appears to be no relationship between the tariff and refined sugar prices.

Figure 2



CANEGROWERS asserts that the assumption that markets always transfer benefits is incorrect in practice. Further, CANEGROWERS believes that in the assessment of

benefits and costs, it must be remembered that ultimately everyone is a consumer. This means that the costs to growers and others in the raw sugar industry, should have been factored into the equation for calculating benefits. If this were to have occurred, then it is clear that in fact there is very little net benefit of removal of the tariff.

- **CANEGROWERS asserts that the assumption that markets always transfer benefits is incorrect.**
- **CANEGROWERS believes that the public benefit test in practice must include all of the community, including those that suffer adversely, in the determination of a net public benefit. Further, consideration must be given to those aspects which are difficult to quantify.**

The SIRWP also asserted that the level of the tariff was “*still high in comparison with other tariffs in the Australian economy*” (SIRWP p3). CANEGROWERS did not necessarily agree with that assertion at the time. Based on decisions made in relation to other tariffs in the Australian economy, particularly the textiles, clothing, footwear and motor vehicle industries, CANEGROWERS believes that there is inconsistency and in fact confusion in relation to the application of NCP principles to this tariff issue.

- **CANEGROWERS believes that there is inconsistency and in fact confusion in relation to the application of NCP principles to the tariff issue with other sectors of the economy.**

Complementing this recommendation, the SIRWP made the statement that it “*strongly supports the urgent strengthening of Australia’s countervailing and anti-dumping laws by the Commonwealth Government*” (SIRWP p3). This has not occurred. CANEGROWERS believes this is an area where action by the Federal Government is required.

- **CANEGROWERS believes action is required by the Federal Government to strengthen Australia’s countervailing and anti-dumping laws.**

The SIRWP made the recommendation to remove the tariff “*as part of an overall package of measures designed to improve the international competitiveness and sustainability of the industry*” (SIRWP p3). CANEGROWERS believes that for the raw sugar industry to be not disadvantaged from removal of the tariff, then all recommendations from the review must be implemented as a package. Failure to implement as a package approach would therefore adversely affect the competitiveness of the raw sugar industry.

#### Domestic Sales at Export Parity

The SIRWP also recommended (recommendation 3.4), as the result of a public benefit test, that domestic sugar should be sold by the QSC at export parity. Although the recommendation specifically indicated that “*domestic raw sugar prices should be set at export parity levels, where: i) The domestic raw sugar price reflects the world price (including polarisation premiums) plus the Far East Premium*” (SIRWP p149), it is not clear what were to occur with domestic prices if in fact domestic prices are lower than the world price plus the Far East premium. This means that domestic market returns may, in fact, be less than those on the export market from an exporter’s

viewpoint. There is now the possibility the Queensland raw sugar industry of choosing not to supply to the domestic market. This is because each market for raw sugar must be assessed in terms of the ability to provide a suitable income to the suppliers, that is the growers and millers. This is particularly important given the current uncertainty about the future of the industry legislative arrangement.

#### Acquisition and single desk selling

CANEGROWERS believes that single desk selling is a vital pillar to structure of the raw sugar industry. The SIRWP shared this belief and acknowledged “*it ensures the industry and the Australian community generally continue to capture the benefits flowing from single desk selling*” (SIRWP p144).

While CANEGROWERS believes that acquisition and single desk selling for the Queensland raw sugar industry clearly provides net benefits to the community, the recommendation from SIRWP (recommendation 3.1) to retain these features, and subsequent agreement by both the Queensland and Federal Governments does give some encouragement that the concept of the public benefit test has merit, based on its application to acquisition and single desk selling in the Queensland raw sugar industry. There are however concerns with its applications to issues which are more difficult to quantify, as outlined elsewhere in this report.

- **The NCP public benefit test conceptually has merit based on its results to maintain acquisition and single desk selling, however concerns remain about the application of the public benefit test to other issues**

#### Removal of pool price differential

The fixed percentage price difference between number 1 pool sugar and number 2 pool sugar was introduced in 1990, along with a phased reduction to a level of 6% differential for the 1996 season. The SIRWP recommended (recommendation 3.8) that for the 1997 season a level of 6% be maintained, 4% in the 1998 season and removal of the differential from the 1999 season. CANEGROWERS acknowledges that removal of the differential is an equity issue between districts, and therefore would not change total net income to the industry.

However it must be recognised that there are many cane growers who will have their income reduced as a result of the removal of the differential. These growers have the majority of their production in number one pool. Further, these growers have also had their incomes reduced by the abolition of the tariff. Most growers in the Northern and Southern regions of Queensland have the majority of their production in number one pool, and it is these growers who have clearly had significant reductions in income based on the removal of the pool price differential and the abolition of the sugar tariff.

In this respect, the SIRWP stated (SIRWP report p237):

*“While it is impractical to quantify the likely impacts, the Working Party considers there is the possibility that significant adjustment pressures may arise in mill areas in the Maryborough-Bundaberg area and, to a lesser extent, some mill areas in the northern region. The Working Party suggests the Queensland Government takes this possibility into account when implementing regional development programs such as*

*the proposed \$1,000 million expenditure on water supply infrastructure over the next 15 years.”*

An outcome which has occurred is a proposal to government for \$19 million funding to examine regional research issues. This proposal was reduced to \$13.45 million, reducing the industry’s ability to address these research issues.

- **The NCP influenced review recommendations has clearly had adverse impacts on regions which have already been faced with difficulties for other reasons.**

CANEGROWERS emphasises that the growers in the Northern and Southern areas, in the 1997 and 1998 seasons, have been adversely affected by lower sugar yields per hectare. In the North there are considerable concerns about low CCS levels (sugar content) of cane, and in the Southern areas there are concerns about lack of water. The recent funding commitment for examination of low CCS levels is a step in the right direction, as is the construction of the Walla Weir in the Bundaberg area. However more is required and it must be noted that the Walla Weir was first mooted many years ago, and the commitment for development was provided before the SIRWP report recommendations were delivered. CANEGROWERS believes additional assistance is required for those producers who are currently suffering the triple-whammy of low sugar yields, reduction in income due to removal of the pool differential and reduction in income due to the tariff. A further blow is expected, particularly to these producers, as a result of lower world prices for the 1999 season production.

- **CANEGROWERS therefore recommends an assistance package for those producers who:**
  - a) will suffer a net reduction in income as a result of the removal of the pool differential, and**
  - b) are experiencing lower sugar yields per hectare (ie lower than the average for the previous 5 years) as a result of adverse weather conditions, and**
  - c) will receive a lower cane price as a result of the global economic downturn causing a significant drop (ie greater than 15%) in Queensland raw sugar prices, and**
  - d) are experiencing reduced income due to abolition of the sugar tariff.**

Suggestions for assistance include temporary tax credits and low interest loans.

- **CANEGROWERS also recommends the Sugar Industry Infrastructure Package be revisited to ensure priority is given to projects in those areas where the majority of growers are have their income reduced due to the four points above.**

### **Effects of NCP Influenced Changes to Sugar Industry**

#### **Reduction in income**

There is clear evidence that the changes implemented to date as a result of the NCP influenced 1996 Sugar Industry Review has reduced incomes of cane growers in many

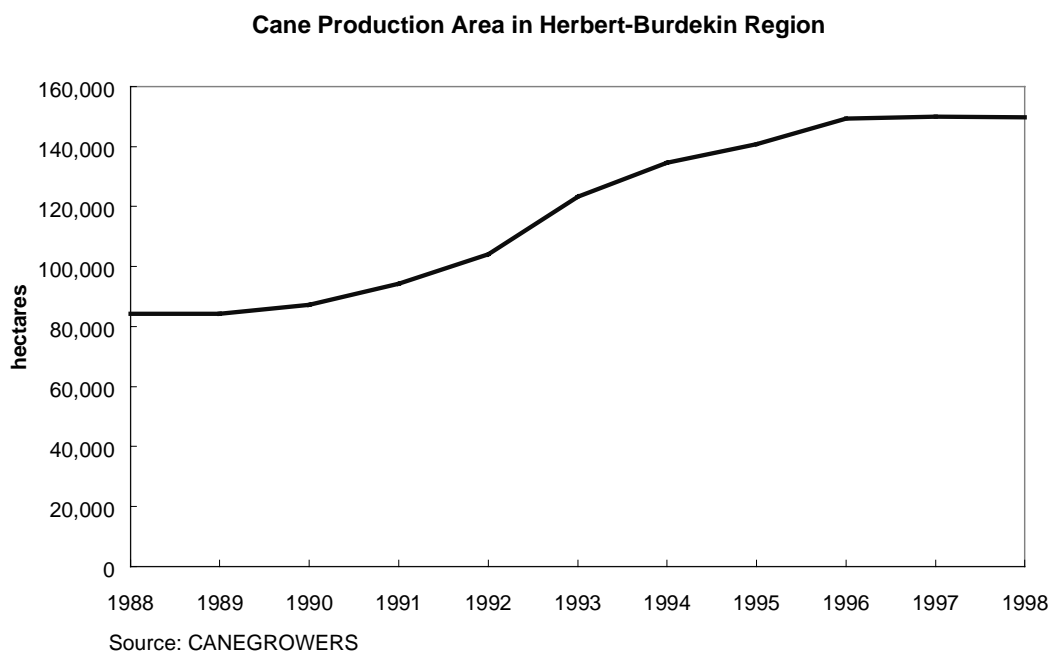
areas, particularly in the Northern and Southern areas of Queensland. This reduction in income is also likely to cause a reduction in spending by growers in those rural areas, thereby multiplying the adverse effects.

#### Uncertainty and reduced investment

Further, the protracted development of replacement legislation for the *Sugar Industry Act 1991* has caused uncertainty about the short to medium term future throughout the raw sugar industry. Figure 3 shows that growth of the industry has stalled in the Herbert-Burdekin region, Queensland's fastest expanding region. This has been due to uncertainty in miller-grower negotiation brought about at least in part by the lack of definition of the new legislation. There is a perception of an increased risk to single desk selling, and growers are in a weaker negotiation position. As a result growers are reluctant to make investment decisions, it may be that the mills are also reluctant to make investment decisions.

- **The growth of the industry has clearly slowed, to be almost stalled, as a result of reluctance to make investment decisions.**

Figure 3



#### Destabilisation to grower-miller balance

The reduction in income and the uncertainty about future legislation has caused considerable destabilisation to the grower- miller balance. This is clearly an unexpected social consequence where growers have become less trusting of mills. Furthermore mills are more and more often threatening the core strength of the Queensland raw sugar industry, single desk selling.

There is also uncertainty about the possibility of further reviews, which may result in further reduction in income for growers.

- **CANEGROWERS recommends the Federal Government follow the SIRWP recommendation of no further reviews of the Queensland raw sugar industry for a further 10 years.**

The uncertainty about the sugar industry also means that growers become more concerned about other aspects of micro-economic reform. The obvious example here is the abolition of the sugar tariff while maintaining the tariff in other industries. CANEGROWERS believes there is a perception of inconsistency about the reform process and application of NCP principles. Maintaining of tariffs for the manufacturing industries (motor vehicles, textiles, clothing, footwear) could also create a perception of governments favouring these manufacturing industries, and therefore those industries with power. These decisions benefit metropolitan Australia at the expense of rural Australia, unionised workplaces at the expense of family farms and large overseas owned enterprises at the expense of Australian small businesses.

Further CANEGROWERS is not convinced that changes to the sugar industry thus far have delivered net benefits to Australia. Other areas of reform, such as telecommunications services, the uncertainty of the electricity industry in Queensland and the reduction in banking services would add to the concerns of country Australia.

Perhaps it is more than coincidental that the strength of the One Nation party has been high in the sugarcane growing areas of Queensland, areas which have experienced reduction in income as a result of NCP influenced reforms.

### **Related Reforms**

Brief comments are provided in relation to the water reforms, as well as brief comments on other areas of reform.

#### Water

As the major consumer of irrigation water in Queensland, the cane growing industry is very concerned about the NCP influenced reform proposals to substantially increase the price which primary producers pay for water. As cane growers are unable to pass on these increased costs to consumers, significant increases in irrigation water prices would lead directly to significant reductions in net income because water is clearly a considerable proportion of input costs. In some areas this may make cane growing unviable. Further the capital for farm irrigation systems invested by growers has been based on current pricing policy.

Specifically CANEGROWERS believes the extent of full cost recovery has been overstated as they are likely to include taxation equivalents/ tax on sinking funds, investment as profit and the interest earned from the sinking fund investment. This concept will almost certainly increase rural irrigation water prices to the extent that some areas could become unviable. Small irrigation schemes, such as Maryborough would be particularly adversely affected.

There is a requirement for an urgent review of rural irrigation cost items. CANEGROWERS believes the current costs are based on inefficient management of

existing arrangements. For example, the rural irrigation water costs currently include consideration for community service obligations. CANEGROWERS believes such costs are an inappropriate basis to determine water charges. Further, present inadequate accounting practices mean that appropriate cost items are not able to be separated. Current appropriate costs will not be determined until these irrigation schemes are privatised.

An additional issue which requires highlighting concerns the large irrigation schemes which are currently making a profit. CANEGROWERS believes the State Government is continuing to index the rural irrigation water costs to increase profits whilst maintaining scale and efficiency benefits. This again highlights the need for an urgent review to identify the rural irrigation water cost items.

- **CANEGROWERS recommends a review be established to properly identify the actual cost for rural irrigation water.**

Rural irrigation water in Thailand and India is currently supplied to farms in those countries at no charge. As Thailand and India are major sugarcane competitors, any increase to irrigation water charges for Queensland cane growers will reduce Australia's competitiveness.

The concept of local management is also important. CANEGROWERS believes that local management must incorporate the whole system to be effective. This means the Local Management Committee must manage the dams as well as the distribution systems. Currently this is being resisted by the State government.

- **CANEGROWERS recommends that local management of rural irrigation adopt a whole systems approach where the Local Management Committee manages the dams as well as the distribution systems.**

A further concern is insufficient time and process for negotiation as reforms occur. CANEGROWERS believes that the 2001 time frame is being used as a lever to rush reforms and minimise time for adequate consultation and negotiation after delaying implementation for the last three years.

- **CANEGROWERS believes the NCP timetable is being used as a lever to rush reforms and minimise time for adequate consultation and negotiation, particularly in relation to water reforms.**
- **CANEGROWERS recommends the time frame for reforms be adjusted to allow for sufficient time for consultation and negotiation.**

CANEGROWERS believes that suitable progress has occurred with water entitlements to date.

#### Effect of NCP on prices of other inputs

Changes to the petroleum industry have yet to provide any mechanism to address the difference in petrol and diesel prices between country and metropolitan Australia. It is

acknowledged that in metropolitan Australia the presence of more retailers lead to more discounting. However anecdotal evidence regularly provided to CANEGROWERS suggests that prices for petrol and diesel in country Australia is generally much higher than metropolitan Australia. Further, sugar industry towns generally have three or more petroleum companies with retail outlets in the towns. This therefore indicates that there should be competition in those market places.

In relation to other input prices, any benefits or losses are at this stage difficult to assess due to the various stages in respective reform processes, and due to variations in currency.

#### Other aspects

CANEGROWERS has anecdotal evidence which leads to concern about the reduction in telecommunication services following the deregulation of that industry. It is almost unheard of nowadays for metropolitan Australians to be without telecommunications for a week or more, however this is a common occurrence for country Australia. Most sugarcane growing areas are close to major regional centres however there are frequent occurrences of cane growers being without telecommunication services for a week or longer.

With the increased influence of electronic communication, such as electronic mail and the internet, a cut to telecommunication significantly reduces the ability of country Australia to carry out business.

- **CANEGROWERS recommends the Federal Government carry out a detailed review of the reduction in services in country Australia, as compared with those services in metropolitan Australia. The review would provide clear evidence of such effects rather than relying on anecdotal evidence. Areas to be examined would include telecommunications, electricity, financial services, and roads and transport.**

#### Summary

Some of the proposed changes under National Competition Policy have merit conceptually, however in practice there appears to have been difficulties in application. This is particularly the case with the public benefit test.

The Queensland raw sugar industry has not received any significant real benefit from the NCP reforms. Many growers are in fact worse off in that they will receive incomes significantly reduced than if the NCP influenced changes from the Sugar Industry Review did not occur. Further, the increase in uncertainty and subsequent reduction in investment can be added to the list of adverse impacts.

CANEGROWERS is also particularly concerned in the application of NCP to other sectors of the economy and there appears to be significant inconsistency.

It is therefore recommended that the Federal Government and all other Australian Governments meet , in the form of a Council of Australian Governments (COAG)



Mark 2, to review and consider the issues raised in the Productivity Commission Review. This would include an assessment of benefits and losses, with a view to a new NCP process and timetable.

- **CANEGROWERS recommends that the Federal Government and all other Australian Governments meet , in the form of a Council of Australian Governments (COAG) Mark 2, to review and consider the issues raised in the Productivity Commission Review. This would include an assessment of benefits and losses, with a view to a new NCP process and timetable.**