

SUGAR

INDUSTRY CHALLENGES FOR POLICY AND RESOURCE MANAGEMENT

**DAVID COX
DAVCO FARMING
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outlook^{conference} 05

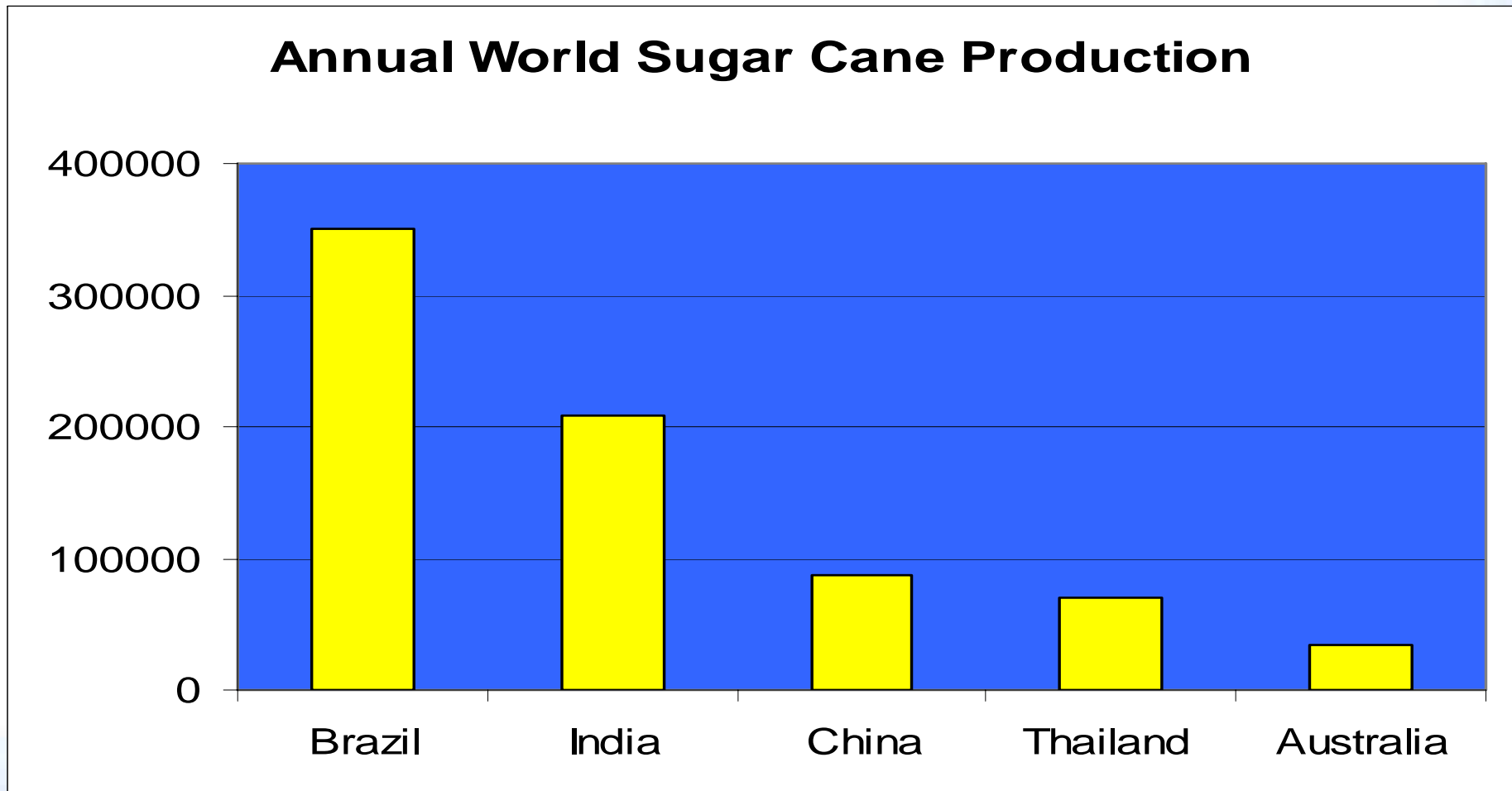
Today I want to do three things:

- ❑ Clarify the cause of the sugar industry's problem,
- ❑ Explain why the simplistic farm inefficiency argument is logical in theory but wrong in practice;
- ❑ I especially want to focus on the positive policy opportunities for both Federal and State governments, and the opportunities for sugar cane farmers and the industry in general.

Our Past

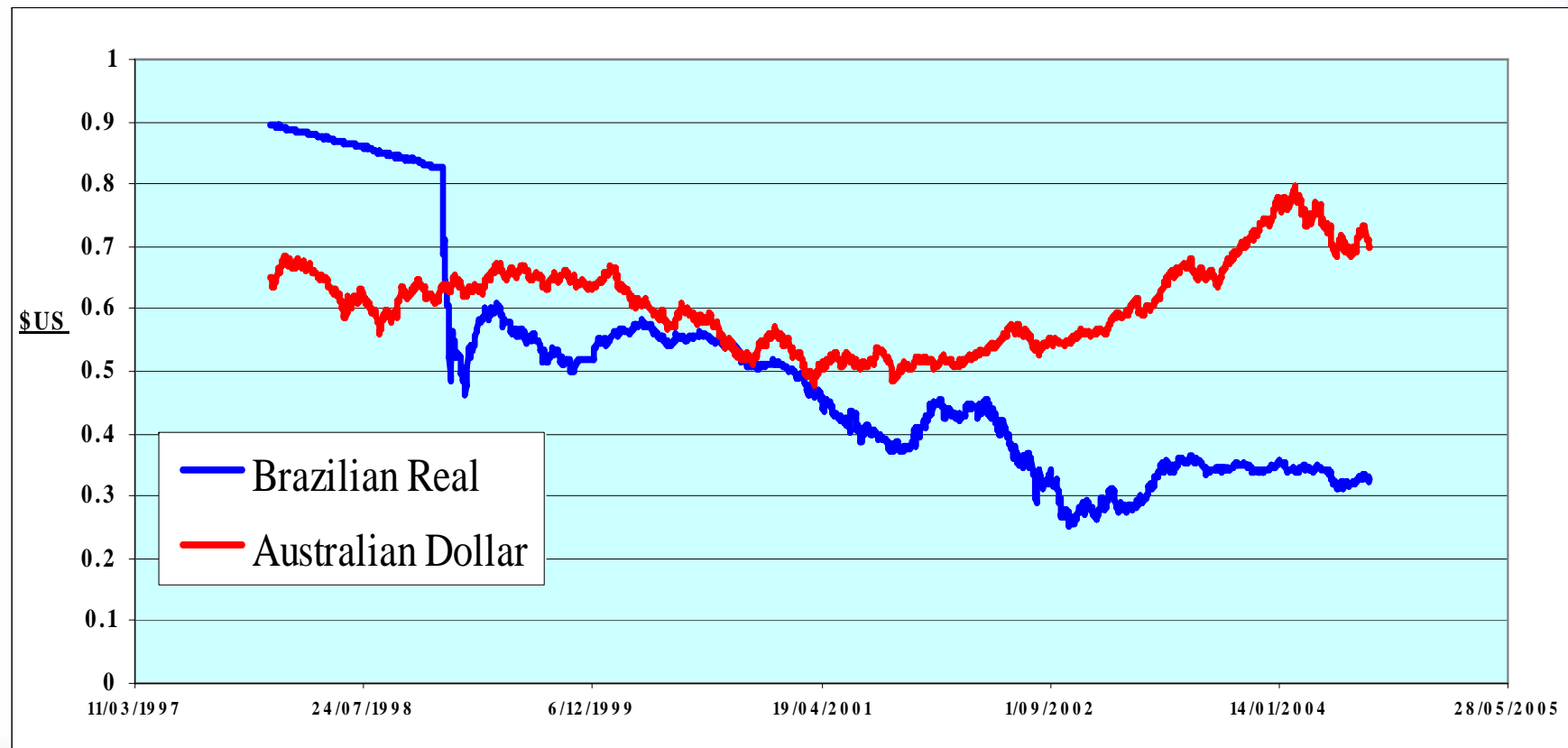
- **For most of the last century the Australian sugar industry had a reputation around the world of being at the forefront of technology and leaders in productivity.**
- **We hosted tour after tour of international sugarcane growers wanting to learn how we were doing it so well.**

This is where we are in terms of volume of production



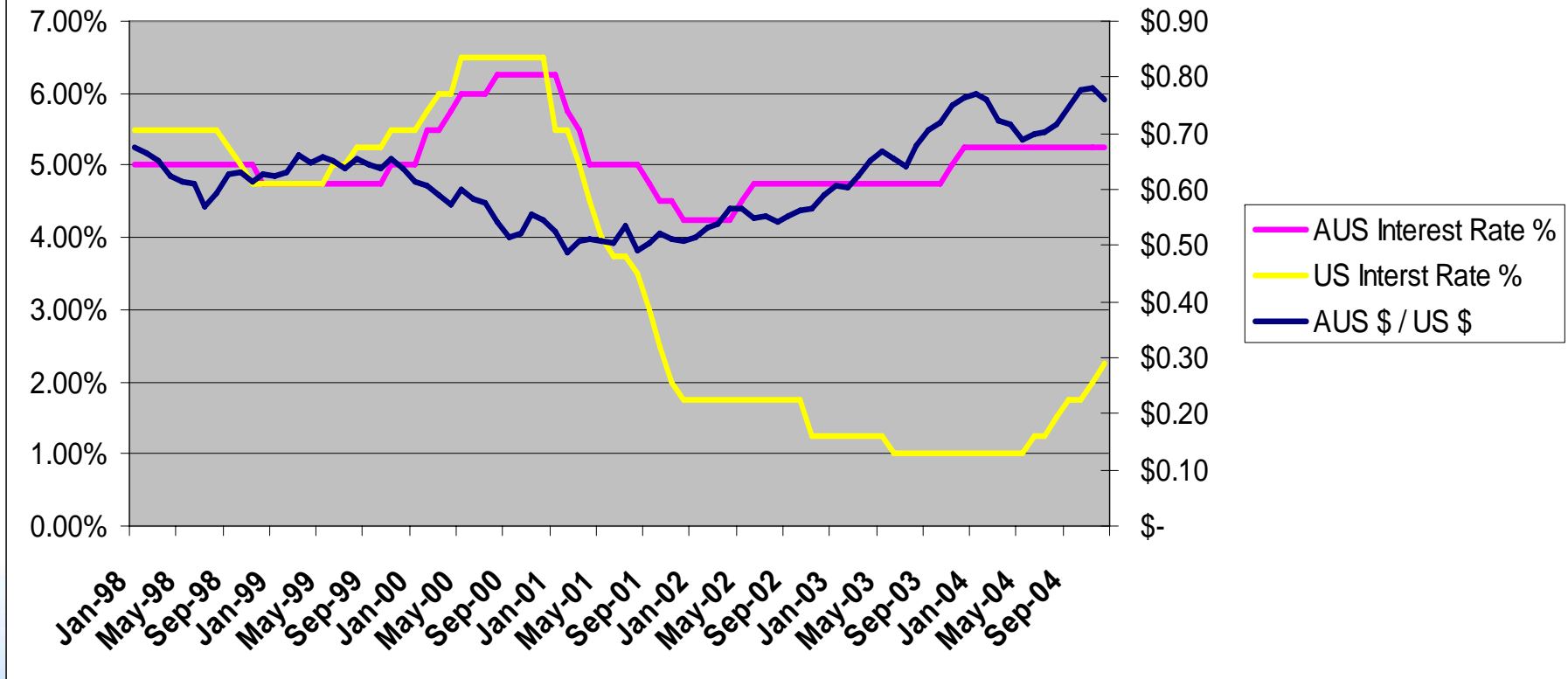
WHAT THE HECK HAPPENED ?

*This is what happened !
The float and devaluation of R\$*



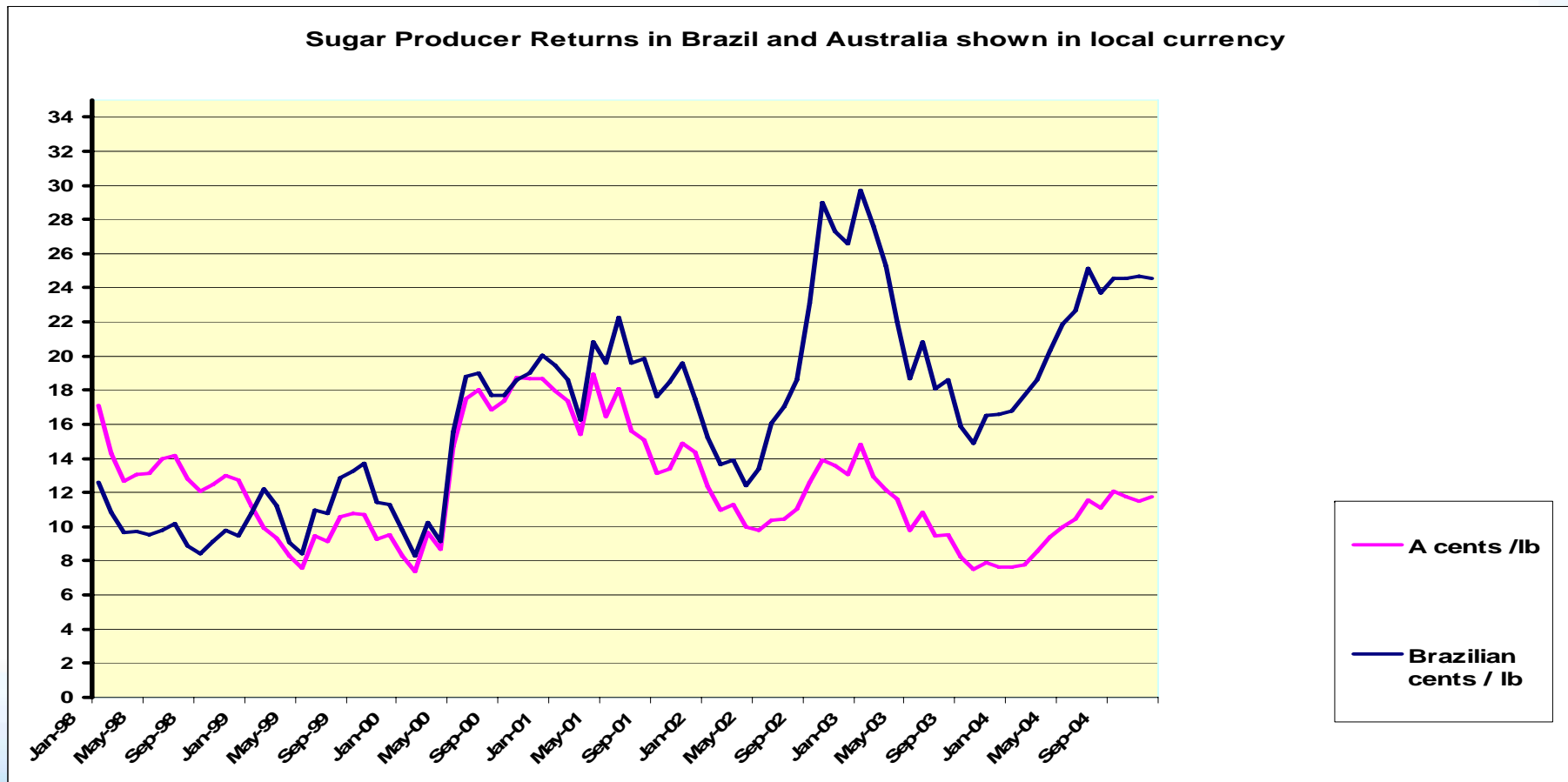
And Then the Double Whammy !

History of US and Australian Interest Rates and the corelation to value of A\$



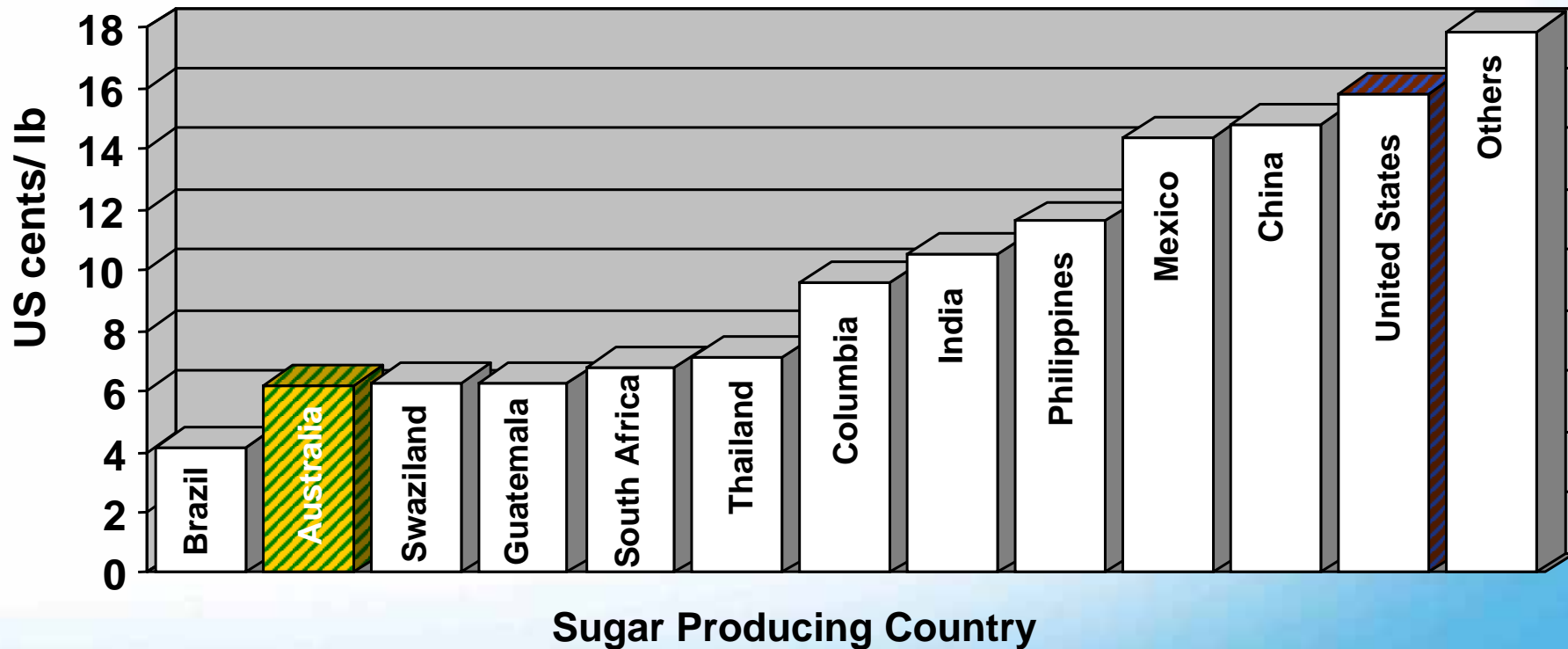
Brazilian Sugar Income Vs Australian Sugar Income

Our Competitive advantage changes



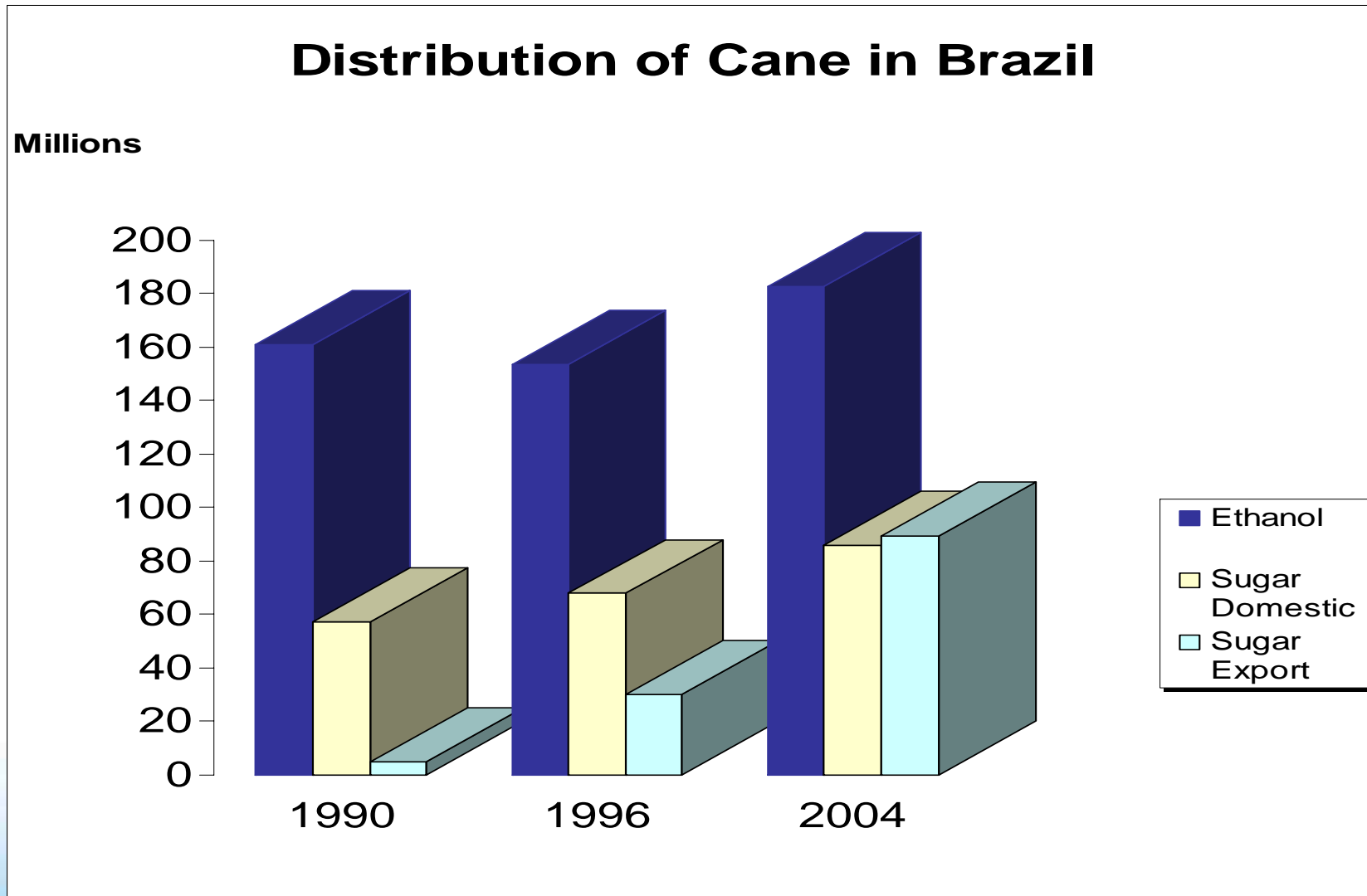
This is where we are in term of production cost and efficiency

World Raw Sugar Production Cost Curve



Lowest Cost <-----> Highest Cost

DIVISION OF BRAZILIAN SUGAR CROP BETWEEN ETHANOL, DOMESTIC SUGAR, AND EXPORTED SUGAR



That is the reality!
What can we do?

- There are two key areas with potential for improvement
- Restructuring and further cost efficiency measures
- Transition to an ENERGY crop via diversification to transport biofuels and green electricity.
- **The first point above is important, the second is absolutely essential for long-term industry viability**

RESTRUCTURING AND EFFICIENCY GAINS - do opportunities remain?

- ❑ **FARM SCALE -**
- ❑ Limited
- ❑ **INCREASED YIELD –**
- ❑ Limited
- ❑ **HARVESTER CONSOLIDATION –**
- ❑ Limited
- ❑ **DELIVERY OF GOVERNMENT SERVICES –**
- ❑ High potential. 7-12% of Total Production Costs
- ❑ **This area of cost reduction must be pursued.**

*RESTRUCTURING AND EFFICIENCY GAINS - do opportunities remain?
Cont.*

- **MILLING TECHNOLOGY –**
- **Australia's sugar industry has developed over the last 70 years under a highly regulated framework. As a consequence we have an industry focused on producing raw sugar crystal for overseas refineries.**
- **Brazil on the other hand has a modern milling industry, which has developed with new integrated technology focused on full utilization of the sugar cane plant,**

BRAZIL'S MILLING ADVANTAGES –

- More than 80% of Brazils current milling capacity has been constructed over the last 30 years and have one feature in common – they all produce ethanol.
- This joint production concept allows the Brazilians to produce HIGHER quality raw sugar at a LOWER price than our traditional Australian mills.
- We must emulate the Brazilian sugarcane-processing model with at least three products being produced
- **High quality raw sugar crystal**
- **Ethanol**
- **Cogeneration of “green” electricity**

OUR PATH FORWARD-

- **The Brazilian industry has developed within a government policy environment which has guaranteed the domestic ethanol market.**
- **To increase the capital investment required to match Brazils technology, the Australian Government will need to move policy settings forward to secure future Australian domestic markets for ethanol and excess electricity.**

Growers must share in increased efficiency gains

- We **must** also share the benefits of a more efficient industry between Growers and Millers.
- Brazil has achieved this through vertical integration of infrastructure ownership.

OUR PATH FORWARD- Cont.

- **We can match Brazilian sugar milling efficiency here, but only with the right policy settings.**
- **Greater competition and transparency of investment and production costs in the milling sector, together with positive renewable energy policy settings, would allow growers to take some advantage of our currency to invest in the most modern Brazilian milling infrastructure.**
- **This is precisely what we intend to do in the Burdekin with the new Austcane group.**

Why Renewable Energy is the only Real Answer:

- The only long-term answer for any competitive sugar cane industry is **diverse revenues** -- especially from renewable energy.
- **Thirty years of Brazilian government policy** encouraging a large domestic sugar and ethanol market together with electricity cogeneration underpins Brazil's dominance of the world residual sugar market.

The Opportunity for Policy Leadership:

- What is now abundantly clear is that the ***renewable energy policy settings – as opposed to funding programs -- are the most crucial area for government leadership*** in any future sugar industry deliberations.

In Closing:

- **With no major breakthrough in trade liberalization the Australian sugar industry will continue to stagnate in the 'residual' sugar market.**
- **The ONLY ALTERNATIVE is to diversify cane revenues with the right policy settings on renewable energy.**
- **This presents a golden opportunity for policy leadership and vision.**

*ETHANOL is not a single product issue,
It is a TOTAL ECONOMIC, SOCIAL and ENVIRONMENTAL
CONCEPT*

The Benefits include:

- ❑ 1. Renewable fuel
- ❑ 2. Reduction in CO2 emissions
- ❑ 3. Improved air quality in our cities
- ❑ 4. Improved public health
- ❑ 5. Better quality sugar
- ❑ 6. Lower cost sugar
- ❑ 7. Improved balance of payments
- ❑ 8. Improved fuel supply security
- ❑ 9. Stabilization of Qld. coastal communities
- ❑ 10. Regional employment

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What has caused the City Boom ! But a disaster for Rural Industry

