
Annual Review 2003

sugar **milling**

AUSTRALIAN SUGAR MILLING COUNCIL



The Australian Sugar Milling Council

Ten companies that own and operate all twenty-six raw sugar mills in Queensland are members of the Australian Sugar Milling Council.

Council Members:

Chairman: G E Mitchell, AO
J C Baird
D M Braddock
R Cargnello
G R Davies
W M Heck, OAM
M Hochen
P G James (to March 2002)
I M McMaster (from April 2002)
D R Leighton
G D Maclean
A J Musumeci
W R Phillips-Turner
R J Swindells

Directors:

Chairman G E Mitchell, AO
Deputy Chairman R Cargnello
Deputy Chairman W M Heck, OAM
J C Baird
P G James (to March 2002)
I M McMaster (from April 2002)
D R Leighton
A J Musumeci
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Raw sugar is produced from sugar cane in three of the Australian States, in the approximate proportions of:

Queensland – 94 per cent
New South Wales – 5 per cent
Western Australia – 1 per cent.

Many aspects of the industry in Queensland are regulated. There is no legislation specific to sugar in the other two States. This review relates primarily to Queensland from which about 98 per cent of Australia's raw sugar exports are sourced.

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Chairman's comments

Signs of recovery were evident in 2002 season. The crop and productivity for season 2002 was, in the short term, demonstrative and encouraging. Queensland's overall cane and sugar production was close to 10% higher than seasons 2000 and 2001.

The industry, particularly in Queensland, is at a complex set of crossroads. We are experiencing the convergence of low returns from a residual world sugar market, adverse currency realignment, flexible competitors, local productivity improvement constraints and probably regulatory structural change.

The sugar industry's core business is based on export of a bulk commodity into a residual world market. Industry participants know, that like all commodities, there has been continuing price decline interspersed with occasional price shocks and constant volatility. The goal posts of relative costs are moved from time to time by one or other of the major exporters, by continual innovation and operational change, by actions of governments, and by currency exchange rates. The largest world market supplier has a dual income stream and has moved the goal posts some considerable distance.

The market structure is dictating that structural change and more consolidation in our industry is essential. The challenges for the industry remain clearly evident and include a return to consistent production, with a continuous improvement in productivity and a step change in some industry practices to improve productivity. The greatest challenge will be to advance from the past familiar regulatory regimes to structures which, in the widest sense, are commercial, integrated and innovatively sustainable.

2002 was in some ways a year of reviews with no less than three major reviews undertaken into various aspects of the industry. The industry needs to and will move beyond continued analysis and review.

The long term sustainability of the Australian industry rests largely on transforming knowledge into actions. Agreeing on the ways to take up opportunities with real action locally and regionally is a priority. Success will require focus on those activities that can add commercial value to our businesses, on making structural change, and on a joint commitment to meet whole of industry challenges.

The announced Industry Guidance Group in partnership with associated Regional Guidance Group initiatives of Governments provides the frame for a network. Charting the way from here is largely up to the industry. Achieving success through real productivity improvement at lower unit costs requires a commitment by local industry participants to face the challenges together.

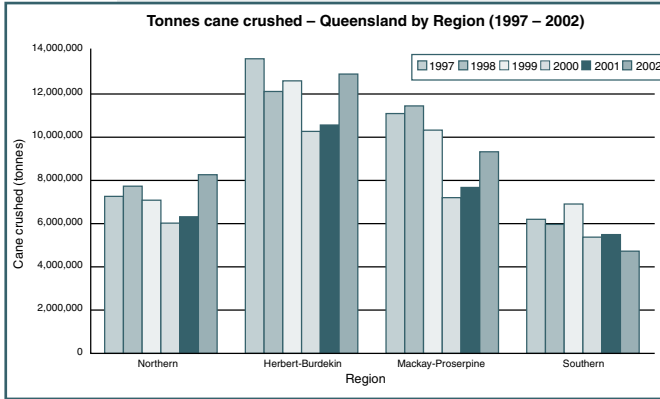


Geoff Mitchell

Production 2002

Queensland mills crushed 35 182 585 tonnes of cane in the 2002 season. This was a 15% increase on the 2001 season and 6% higher than initial season estimates.

Figure 1



Source: ASMC Statistics

The increased production was notable in both the Northern and Herbert-Burdekin regions with the Northern Region exceeding initial crop estimates by 8.5%. Ideal growing and harvesting conditions gave the Tully region a record crop of 2.3 million tonnes.

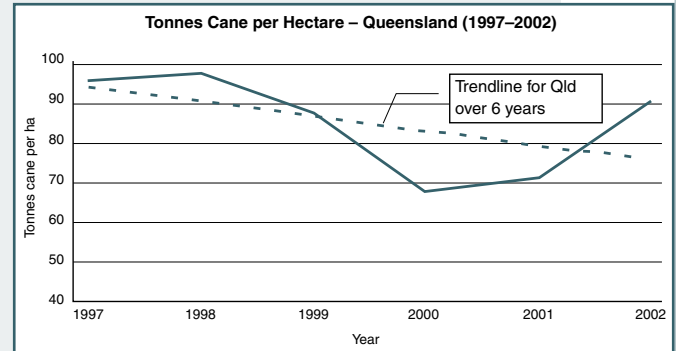
The Mackay-Proserpine region's crop was an improvement over 2001, attributable to an increase of 25% in the Proserpine area. The Mackay district was affected by prolonged dry weather. Orange rust in variety Q124 continues to impact on the Mackay crop and whilst much of the previously affected cane has been replanted with other varieties, yield from these varieties is less than from Q124.

Bundaberg, Isis, Maryborough and Rocky Point areas were badly affected by drought and limited supplies of irrigation water.

Yields

Since a peak yield in 1998 of 97.13 tonnes cane per hectare for Queensland, yield has trended downwards. Although 2002 appears to foreshadow a return to higher yields, the trend remains downwards. Recent rains have improved the outlook for season 2003 and there are signs of a return to normal weather patterns.

Figure 2



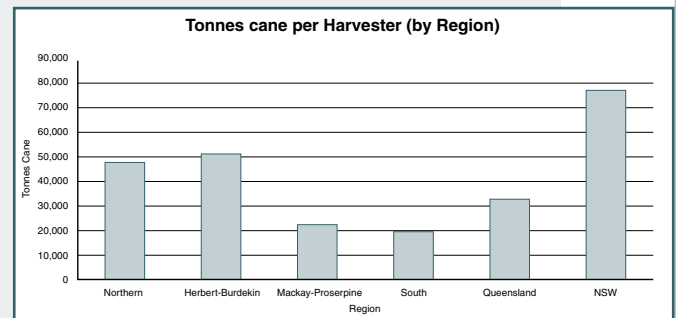
Source: ASMC Statistics

Harvesting

The area harvested for milling in the 2002 season was the lowest since 1998. Drought conditions which prevailed for much of the growing period resulted in only 392 728 hectares being harvested, almost 30 000 hectares less than in the year 2000. This was despite an additional 1 958 hectares being planted to cane. The total cane production area (CPA) in Queensland is in excess of 520 000 hectares.

In Queensland, the average tonnes of cane cut per harvester in 2002 was in excess of 33 000 tonnes.

Figure 3

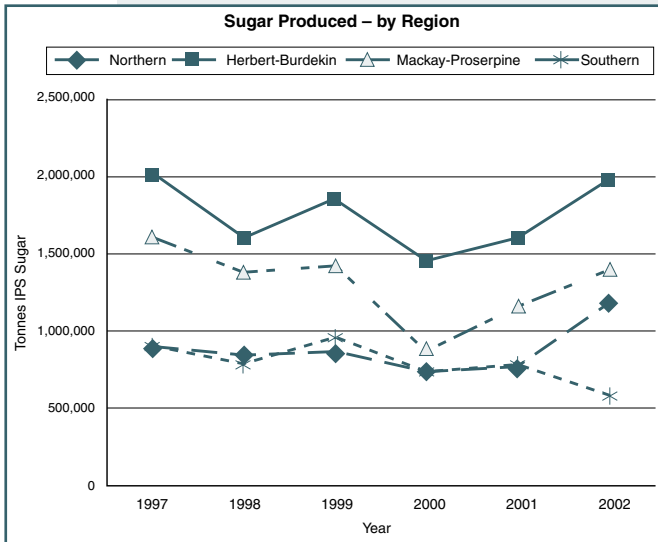


Source: ASMC Statistics

Sugar Production

Raw sugar production in three out of four regions improved in line with the increased cane tonnages. The average Queensland Commercial Cane Sugar Content (CCS) this year averaged 14.2, the highest since 1991 (14.5). The drier conditions particularly favoured the Northern Region whose CCS of 13.31 equalled that of 1992. Irrigated crops in the Burdekin flourished in the dry conditions. The average CCS in the region was almost 14.84, marginally less than that of last year.

Figure 4



Source: ASMC Statistics

New South Wales

New South Wales mills crushed 2 355 757 tonnes of cane and produced approximately 278 000 tonnes of sugar. This was nearly 280 000 tonnes of cane more than the previous season. CCS averaged 11.81, slightly higher than in the 2001 season.

Western Australia

Almost 445 000 tonnes of sugar cane was crushed in the Ord River region in 2002 with an average CCS of 12.14. In 2001, 290 581 tonnes of cane were crushed. Just over 50 000 tonnes of raw sugar was produced. Expectations are for a substantially improved crop in 2003.

Queensland 2003 crop

Early estimates are for a crop similar in size to 2002. Although the 2003 crop has been seriously drought impacted, recent rainfall across Queensland and the replenishment of irrigation water reserves will encourage crop growth.

"... It may take several months of sustained above average falls in some areas to effectively end the drought." (Bureau of Meteorology, 18 February 2003)

We've called for the elimination of all trade distorting domestic support over five years for developed countries and nine years for developing countries and we've called for additional special and differential treatment for developing countries.

The Hon Mark Vaile, Minister for Trade, Australia.
Address to the Global Alliance for Sugar Trade Reform, Santa Cruz, Bolivia 18 October 2002.

Liberalisation

The international agricultural commodity trading environment continues to be severely distorted by the support and protection policies of the world's major industrialised countries. Australia has long been an advocate of free trade and has opened the domestic sugar market with producers receiving no tariff protection against imported sugar.

Trade liberalisation for agriculture is of key importance and Australia continues its efforts to have export subsidies eliminated and for cuts to trade-distorting domestic subsidies in other countries.

Progress is evident but very slow. In November 2001 the World Trade Organisation (WTO) through the Doha declaration called for substantial improvements in market access, the reduction and ultimate phasing out of all forms of export subsidy; and substantial reductions in trade-distorting domestic support. WTO members also agreed that new reduction commitments in the areas of market access, domestic support and export competition would be established by 31 March 2003.

In June 2002, the United States called for broad negotiations to increase agriculture trade liberalisation and expand market access. Through a US-led coalition that includes most WTO members, the goal is to eliminate export subsidies in five years.

Despite the beleaguered state of the sugar industry as it struggles with world prices depressed and distorted by major trading bloc subsidies, the relative level of trade protection has risen in recent years in those trading blocs as the world price of sugar has fallen. Estimates are that levels of protection have climbed to between 150 and 400 percent.

Also, it is estimated that with removal of all protection by 2012, the world price of sugar would increase by around 60% relative to the average world price over the last four years.

Australia and Brazil have mounted a challenge through the WTO mechanism, specifically related to the level of subsidies on exports of European Union (EU) sugar. Although recognised as one of the world's highest cost producers of sugar, the EU is the world's largest exporter of sugar accounting for 40% of the world's exports of sugar in 2001.

Free Trade Agreement between Australia/USA

In another arena, there has been positive progress to establish a Free Trade Agreement (FTA) with the United States.

Negotiations for the FTA, scheduled to commence in March 2003, are considered to provide momentum to the Doha Round of multilateral trade negotiations. Although there is a complexity of issues, the FTA is expected to be well advanced by 2004. It is proposed that the FTA will cover goods, agriculture, manufacture and investment.

Consideration of the co-ordinating role that loosely defined State Trading Enterprises (STEs) occupy has become part of the agenda. The approach to marketing Queensland's raw sugar is one of co-ordination of effort, extracting operational efficiencies and establishing long term customer relationships through Queensland Sugar Limited

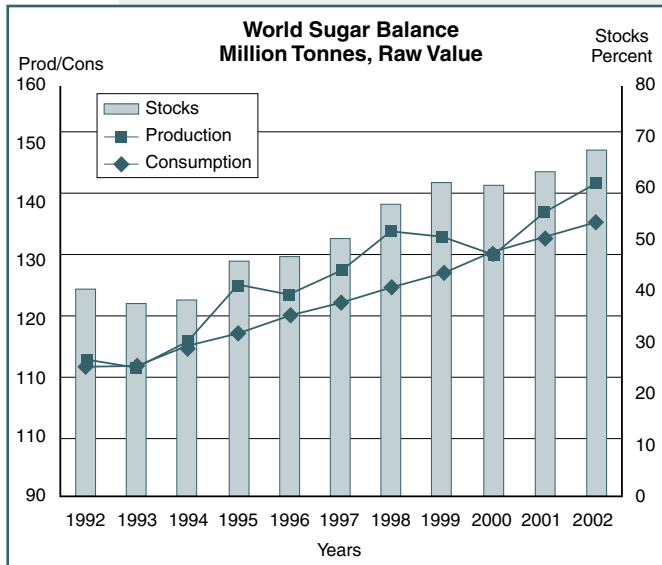
The Raw Sugar Market

While the volume of traded sugar has been increasing steadily over time, its proportion of world production has been declining. This trend is the result of countries developing policies of self-sufficiency in sugar.

Achieving that objective has been difficult for many countries. Establishing sugar refining capacity has been more attractive to investors because of strong population growth, unattractiveness of investment in inefficient raw sugar production systems; and restricted soil and water resources.

Raw sugar market fundamentals were negative with another surplus expected for 2002/03. Figure 5 demonstrates the trend in supply, demand and global stocks of sugar.

Figure 5



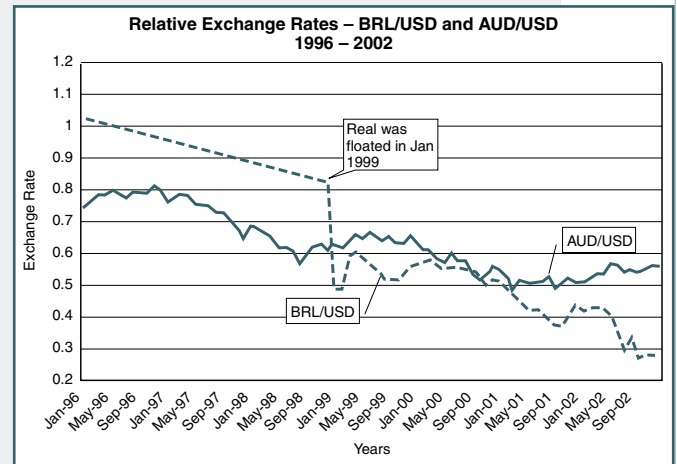
Source: FO Licht

Brazil has become the leading force in the world sugar market and has significantly influenced the price of traded sugar. Brazil is now able to supply what were previously regarded as “far-off” markets, taking full advantage of improved export capabilities, supply flexibility, improved sugar quality; and favourable freight rates.

Exchange Rates

Large downward movements in domestic exchange rates can, other things being equal, confer a significant competitive advantage on exporters. While the AUD/USD has remained relatively constant over the last five years, figure 6 demonstrates the clear advantage conferred on exports from Brazil by relative movement in the BRL/USD over that same period.

Figure 6



Source: Queensland Sugar Limited

Year 2002

Failure of the market to sustain price above the 8 US cents per pound level and a subsequent 2 US cents per pound fall in raw sugar price over the January-February 2002 period followed projections of a much larger cane crop in Brazil.

By the end of April 2002, a sharp decline followed with the price settling around US 5.55 c/lb, influenced by selling pressure from the funds and speculators as well as producers. That sharp decline in price was accompanied by progressive depreciation of the Brazilian Real.

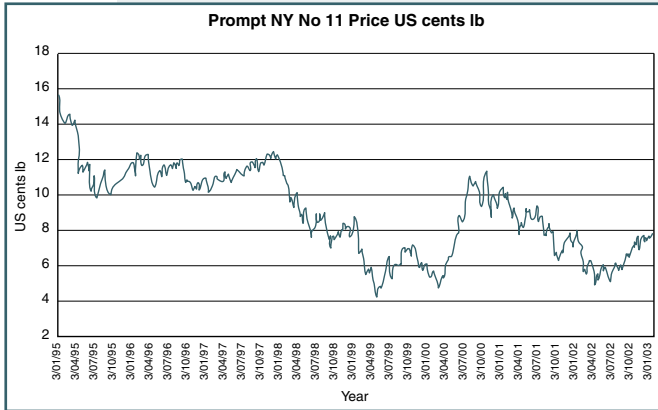
From July to October, despite predictions of large sugar surpluses, global raw sugar prices advanced strongly with most of the upswing being ascribed to technical factors; moves by a number of Middle Eastern countries to install refinery capacity; and the high white sugar premium encouraging increased toll refining activity.

The trend continued for the balance of 2002 with a downward correction during November attributed to Funds realigning investment positions. World sugar prices have been closing at consistently higher levels with increased interest from fund and trade buying, downward revisions of the Brazilian 2002/03 cane crop and higher fuel ethanol demand.

By end January 2003, prompt values had recovered significantly.

Figure 7 shows Prompt NY No 11 Price trend. The longer term downward trend over time is typical of most globally traded commodities. The ongoing processes of innovation, improving economies of scale and scope and consolidation of operations allows producers to maintain a level of return on assets invested.

Figure 7



Source: Queensland Sugar Limited

In summary, "...What will really decide the fate of the world market is Brazil's 2003/04 crop and its level of alcohol production vis-à-vis sugar." FO Licht.

Sugar Industry Restructuring

In September 2000 the Commonwealth Government announced an industry assistance package consisting of up to \$83 million in income support, interest rate relief and financial counseling for cane growers. As a condition of the package, the Government asked CANEGROWERS to develop proposals for comprehensive industry-wide structural reform by June 2002.

In February 2002, the Honourable Warren Truss, MP, commissioned an independent assessment of the sugar industry's viability and restructuring needs with particular reference to its key economic, social and environmental drivers to provide Government with a sound basis for future interaction with the industry. In undertaking the assessment, an independent chairperson was to use best endeavours to work with industry to develop proposals for comprehensive industry-wide structural reform.

Mr Clive Hildebrand, (then Chairperson of the Sugar Research and Development Corporation) headed the independent assessment. As part of the assessment, consultation was undertaken with all sugar regions in Australia as well as industry representative organisations, local industry groups, milling companies and cooperatives, government departments and relevant research organisations. Consultation meetings were held with industry organisations, cane farmers, government agencies and other stakeholders in Brisbane, Mackay, Bundaberg, Townsville, Cairns, together with the NSW & WA cane growing regions. A series of public meetings was held late April/early May 2002 in Innisfail, Mackay, Bundaberg and Townsville.

The Australian Sugar Milling Council made a comprehensive submission that identified three core areas requiring industry focus as part of the assessment. These included:

- changes to the delivered cost of cane if the industry is to remain internationally competitive;
- identifying impediments/constraints to change. The industry knows what must be done. The degree of responsiveness suggests that the task is extremely difficult;
- opportunities for innovation through improved farming systems, co-generation and ethanol.

At the request of Mr Hildebrand, a Joint Structural Adjustment Proposal was developed and endorsed by CANEGROWERS and the Australian Sugar Milling

Council and presented to the Independent Assessment. The proposal covered:

- emergency assistance
- structural assistance in the short to medium term
- program oversight at industry and regional levels

Independent Assessment of the Sugar Industry

"I found that there is too much reliance on a State-wide approach to industry matters. It is clear that the effective operation of each mill area, or mill region, lies almost entirely in the hands of the local co-dependent participants. And it is important that this responsibility is accepted without resort to wider loyalties."

(Clive Hildebrand, Media Release, 28 June 2002)

The Independent Assessment found that:

1. INDUSTRY AND COMPETITION

Scenario:

At present the industry is largely unprofitable and the business management skills are variable and often not well developed. The notion of "industry leadership" is often focused on sectoral representation at state level while the profit center is at regional level. The technical and production needs of the industry are generally known, as is the required technology. However, a whole of value chain systems approach to all aspects of operations is lacking.

Action:

- The Queensland industry must establish a strong mill area or mill region focus of operations.
- For improved mill area economic outcomes, election to the Mill Suppliers' Committee specified in the (Queensland) Act should be completely free of any link whatsoever to the constitution of CANEGROWERS or ACFA, with no "unity" tickets permitted, and with voting to reflect economic interests of farmers.
- A Queensland industry body should be established to represent all mill regions (farm and mill) on extra-regional issues (eg water, transport, health and safety).
- Industry must develop local economic leadership for local negotiations, in preference to established sectoral state representational routes.

Sugar Industry Restructuring

- *With government support, the industry must build business management skills in the regions. An upgrading of business management training is urgently required.*
- *Industry should install a whole of value chain systems approach to all operations, particularly in relation to harvest and transport arrangements.*
- *Within mill areas, a rationalisation of the industry into larger units of farms or farm cooperatives is highly desirable. Government should be fully supportive of industry's efforts.*
- *Worldwide benchmarking of industry activities against the strongest competitors is required, followed by implementation of cost effective options.*
- *Millers need to work to ensure the early rationalisation of mill areas and feeder farms in Far North Queensland.*

2. THE MARKET

Scenario:

The world sugar price is at a low level and is likely to remain so for the short to medium term. The Australian sugar industry is fully exposed to world price at home and abroad.

Action:

Urgent continued efforts are required by government and industry to gain access to protected European, US and Japanese markets.

3. DIVERSIFICATION

Scenario:

There are diversified products available such as ethanol and surplus power co-generated at the mill. Investment in ethanol for transport fuel requires market access and supply undertakings, at a price sufficiently profitable to divert sugar potential. Ethanol from molasses has limited production potential.

Action:

- *Product diversification of both cane and raw sugar must be further encouraged, in order to increase returns. Product diversification of both cane and raw sugar must be further analysed and opportunities to increase returns exploited.*
- *Industry should pursue the further potential for co-generation.*
- *The current Commonwealth Government biofuels study should include the development of a model of market access and pricing for ethanol.*

- *Industry and government should investigate the implications of domestic ethanol production for the exports of raw sugar.*
- *The industry should investigate possibilities of partnership arrangements with co-investors in diversified products.*

4. ENVIRONMENT

Scenario:

The sugar industry has tended to isolate itself in the environmental debate, despite having been a leader in rural environmental work.

Action:

- *The industry must adopt an "engage not defend" approach to all environmental matters and demonstrate leadership on a catchment-focused level.*
- *The industry should continue to develop and promote voluntary programs such as COMPASS (and beyond) and advance its environmental performance through independent audits.*
- *The industry should work to ensure sustainability through ongoing education.*

5. SOCIAL

Scenario:

The local communities in sugar regions are under pressure as a result of successive poor seasons, low prices, higher debt levels, and succession difficulties. Many cane farmers are prepared to endure extreme economic deprivation to preserve the lifestyle of the family farm, but the lifestyle itself is declining severely.

Action:

- *Options should be explored for allowing some industry participants to exit the industry with support, in the context of achieving more consolidated and viable industry arrangements.*
- *Further work is needed on the local impacts of industry change on industry participants and the broader community, especially the decreased labour requirements of larger farm units.*
- *Support must be provided to vulnerable communities in sugar regions, through an urgent review of existing assistance measures and the provision of training and re-training wherever necessary.*

6. RESEARCH AND DEVELOPMENT

Scenario:

The research base is contracting through a sudden funding reduction. The main funding source of facilitation work in “systems-thinking” solutions and best management practices will cease this year, and the industry is also losing scientists. A CRC bid is under way for sugarcane as a biofactory.

Action:

- *Government should investigate the continuation of supplementary funding for the development of “systems-thinking” solutions, particularly towards integrated harvest and transport arrangements, in order to consolidate strategic mill area viability.*
- *The industry should be encouraged to leverage its intellectual property base, through seeking suitable funding partners.*
- *Industry and government should work at least to maintain and where possible broaden the researcher base serving the industry.*

The Independent Assessment reviewed the industry proposals and stated in its Report that *“the proposals are generally endorsed by the Assessment whilst noting time has precluded analysis and comment.”*

The Independent Assessment concluded *“that the industry’s best chance to survive and flourish is largely up to itself; on its willingness to change the way it organises itself in Queensland; and on learning to co-operate and take up good ideas of which there are many; on its willingness to support the best, most energetic and most able talent to lead for the good of each mill area or region.”*

Strategy for Stabilisation and Sustainability of the Sugar Industry

In response to the Independent Assessment, CANEGROWERS and the Australian Sugar Milling Council reviewed the Joint Structural Adjustment Proposal and produced a Strategy for Stabilisation and Sustainability of the Sugar Industry. The strategy recognised that it is essentially a matter for industry itself to provide for its own sustainability but government had a role to play to work closely with industry to create an environment conducive to improved competitiveness and one which facilitates change. It proposed a partnership approach involving government, growers, millers and

other industry participants and it detailed thirteen strategies for change. The objectives of the Strategy included:

- Stabilisation of the sugar industry in the short term, to ensure that the 2003 crop is adequately prepared and to prevent a social disaster in the towns servicing the sugar industry.
- Sustainability strategies at mill area/regions and industry levels involving change management activities and targeted adjustment measures to achieve efficiencies across the value chain from farming, harvesting, transport to crushing and promote product diversification and environmental sustainability.

Sugar Industry Reform Program

In September 2002 the Minister for Agriculture, Fisheries and Forestry, the Hon Warren Truss MP announced the Sugar Industry Reform Program. The program is based on a Memorandum of Understanding between the Federal and State governments to provide up to \$150 million in assistance to the industry over the next four years as it undertakes significant reform.

Memorandum of Understanding (MoU)

Under the MoU, the Governments agreed that the industry needs to change both its culture and practices in order to:

- improve its efficiency and competitiveness,
- retain its global market share, and
- become more commercial and innovative.

The Governments also agreed that the industry needs to improve its approach to environmental issues and should “engage, not defend” on these issues.

The MoU states that “The Governments recognise that:

- changes in the industry are fundamentally a responsibility of industry itself;
- governments’ role is to facilitate change in the industry; and
- extensive government intervention would be undesirable.”

Sugar Industry Restructuring

Both Governments will deliver a substantial range of programs to assist the industry in the short term and to enable it to change in the longer term, provided that industry commits to and undertakes all necessary changes to ensure its long-term economic, social and environmental sustainability.

The Commonwealth agrees to implement programs that will:

- provide income support and business planning to help stabilise the industry;
- provide assistance for those farmers who wish to exit the industry;
- provide interest rate subsidies for replanting; and
- provide funding for regional initiatives to support industry change and adjustment.

The Queensland Government agrees to implement programs that will:

- make available low interest, concessional loans for farm consolidation;
- provide assistance to industry participants for projects that encourage value-adding, innovation and new practices; and
- provide programs that assist farm viability and address environmental, water and training issues affecting the industry.

Both Governments agree to work towards delivering these programs at a regional level through the establishment of Regional Guidance Groups and an overarching Industry Guidance Group.

Under the joint program of action, the Federal Government will provide up to \$120 million and the Queensland Government will provide \$30 million.

As part of industry reform, the MoU commits both governments to a joint approach on regulatory change to the Sugar Industry Act.

The MoU identifies three areas of the Act which seem to impede change:

- the cane production area system;
- the compulsory bargaining system; and
- the compulsory acquisition of raw sugar for marketing and selling within the domestic market

Both Governments agreed that there should be a joint approach to identify what legislative changes are required to remove these impediments. A further joint communiqué on legislative change is expected, to be signed between the governments once all necessary changes to the Act have been agreed upon.

CIE Report

Pursuant to the MoU the State Government engaged the Centre for International Economics (CIE) to undertake an impact assessment analysis of legislative change in the three areas of the Act identified in the MoU.

In December 2002, the CIE released its report titled "Cleaning up the Act: The Impact of Changes to the Sugar Industry Act 1999".

The CIE reported that unless the Act is changed, the industry faces difficult times ahead, particularly if prices stay low. The assessment found that the Act created a system that discourages individuals and progressive groups from implementing change by preventing 'adverse effects'. The CIE concluded that the industry would benefit by three changes to the Act:

- Removal of the cane production area system;
- Removal of the compulsory statutory bargaining system;
- Removal of compulsory acquisition of sugar for sale on the domestic market.

The CIE report highlights the serious position many milling companies, growers and other participants face in the future. It presents a challenge to the industry. The Queensland Government, as part of a consultation process, is seeking responses from industry to the CIE Report by 31 January 2003.

Achieving Sustainability

Last year the theme of the Annual Review was encapsulated in the three words "Facing Challenges Together". Only three words but the real challenge is in the first and third, that is "Facing Together". Doing that – Facing Together – effectively and positively across the entire cane/sugar/customer value chain is the urgent necessity.

There is a growing awareness across the industry that the industry is operating below its potential. Achieving lower unit costs is now essential and will require a managed restructure to address improved productivity, efficiency and innovative economies of scale through the system. And it can't be achieved by lowest common denominator democracy.

There is also a growing awareness that changes in the industry are fundamentally a responsibility of industry itself and not government. Government can assist though incentivising and facilitating change.

Sugar Industry Restructuring

Industry and Regional Guidance Groups:

The establishment of the Industry Guidance Group (IGG) and Regional Guidance Groups (RGGs) are important ingredients in helping the industry to project a sustainable future with growth. The challenge will be to advance from the past familiar regulatory regimes to structures which, in the widest sense, are commercial, integrated and innovatively sustainable. The IGG composition includes leaders from all major stakeholders within the industry, resourced by the Federal Government. The RGGs will consist of members from the industry and broader community, resourced with sugar resource officers appointed by both governments.

The IGG's purpose is to drive the reform process, oversee the adoption of a regional business approach to industry activities, maintain appropriate communications with the government, and develop a cohesive policy direction for the structural adjustment necessary to ensure long term sustainability of the sugar industry. The IGG must prepare and submit an overarching Industry Reform Plan to the Federal Government by June 2003. Following Federal Government approval of the overarching Industry Reform Plan, the Industry Guidance Group will be required to oversee its implementation and, as appropriate, further development.

RGGs will be responsible for identifying the key challenges facing the sugar industry at a local level and the most appropriate solutions which reflect the unique circumstances of each region. A major task will be to demonstrate whether the region has the prospect of being able to produce and market cane sugar competitive with world prices. Each RGG will be required to develop and implement a viable Regional Business Plan for the local sugar industry, consisting of three essential elements

- a comprehensive analysis of the current state of the region's sugar industry;
- a comprehensive vision for the sustainable future of the region's sugar industry; and
- a comprehensive strategy for achieving that sustainable future.

Once the Industry Guidance Group and the Federal Government have approved its Regional Business Plan, each Regional Guidance Group will then be eligible to separately apply for project funding.

The long term sustainability of the Australian industry largely rests on transforming knowledge into actions. Agreeing on the ways to take up opportunities with real action locally and regionally is a priority. Regulated, unregulated or whatever, growers and millers and all industry participants have to Face the Challenges Together.

The Environment

“... we now must be smart, and we now must be innovative, in order to achieve the goal of sustainability – because there are simply no other options open to us.”

The Honourable Dr. David Kemp MP, Minister for the Environment and Heritage. July 2002.

The focus on responsible management of the environment and the natural resource base on which industries depend is increasing. At a global level, some members of the World Trade Organisation are seeking to have environmental goals included in the global trade negotiation agenda. Nationally, there is an increased focus by governments and the community on environmental issues including global warming. Development of environmental policy has the potential to increase the scope of commercial value adding opportunities while at the same time bringing even stricter external institutional and legislative constraints.

Energy is a significant strategic policy matter for the economy and includes consideration of environmental impacts nationally. Examination of potential opportunities created by the 2% Renewable Energy (Electricity) initiative have had to take increased account of the risks associated with change in policy direction, potential regulatory adjustments, technical change; and the reaction of the marketplace.

A recent report titled “Towards a Truly National and Efficient Energy Market” considered, amongst a range of issues, that there was excessive regulation; and that the greenhouse responses so far were ad hoc and poorly targeted. In that uncertain business environment, including questions about whether the Mandated Renewable Energy Target mechanism should continue, further innovative renewable energy projects are considered to be marginal.

A stable framework in which any bio-fuel related initiatives could be examined in detail and with a degree of certainty is not yet in place. It is expected that firm longer term policy direction will develop during 2003.

The sugar industry takes a responsible approach to environmental management and protection of the natural resource base including adjacent Heritage listed sites such as the Great Barrier Reef. Codes of Practice and environmental management planning tools are now available to industry participants.

The Milling Council takes an active role, where appropriate, in policy development.

Research – Supporting industry sustainability

Collaborative and focused research, technological development and its subsequent application is of strategic importance to the industry. A range of research organizations support the achievement of prioritized goals.

The **Sugar Research and Development Corporation’s (SRDC)** core business is to foster an innovative and sustainable Australian sugar industry through targeted investment in research and development.

Returns from the application of successful research outcomes have been positive for the sugar industry. Concurrent with collaborative arrangements, more sophisticated operations research techniques and the development of improved priority setting processes over the last decade, have evolved.

There has been progress in using a multi-disciplinary approach to understanding options for subsequent application in industry operations.

SRDC’s new and restructured R & D Plan 2003-08 will be based upon four programs:

- (A) Value Chain Integration
- (B) Farming Systems
- (C) Processing and Distribution Systems
- (D) Industry Capacity

In targeting new R&D investment in 2003/04 leading to a step change in industry performance, SRDC will promote the development and implementation of regional action plans, the implementation of integrated harvesting and transport systems, the development of optimal structures and policies that increase whole of industry profitability and the development of whole of systems approaches to sustainability.

Sugar Research Institute (SRI):

A key organisation in the industry network of research, development and extension activities, the Sugar Research Institute has as its focus fundamental, strategic, applied and commercial research designed to meet the needs of member sugar milling companies. The Institute works to an innovative strategic plan and program of work determined and financed by its membership.

Bureau of Sugar Experiment Stations (BSES):

The BSES serves, in the main, the agricultural sector of the sugar industry. The organization is committed to increasing the productivity, profitability and sustainability of the industry; and the transfer of technology to sugarcane growing practices and raw sugar milling.

BSES continues as the lead agency in developing a range of cane productivity and resource management initiatives in collaboration with industry participants. PROSPER, a program aimed at improving cane growing productivity, draws on research outcomes from the Yield Decline Joint Venture and a High Density Planting/Intensive Farming initiative.

Another management resource developed in collaboration with industry participants is "Combining Profitability and Sustainability in Sugar" (COMPASS). This is a self-assessment program to help evaluate the economic and environmental sustainability of agricultural practices.

Co-operative Research Centres (CRCs).

The Co-operative Research Centre program was established nationally in 1990 to strengthen collaborative links between industry, research organizations educational institutions and government agencies.

Established in 1995, the CRC for Sustainable Sugar Production is scheduled to close having worked to a strategy and achieved the goals developed at that time. The Independent Assessment of the Sugar Industry noted that 'CRC Sugar has played a vital role' in promoting environmental initiatives within the industry.

On 12 December 2002, a new CRC for Sugar Innovation through Biotechnology was established. Its major aims are to increase the understanding of

sugarcane molecular biology to enhance the plant's ability to produce sucrose for sugar, and allow the plant to produce valuable end products other than sugar.

The CRC is a collaborative arrangement between the Bureau of Sugar Experiment Stations, three Divisions of the CSIRO, the Sugar Research Institute, the Sugar Research and Development Corporation, University of Queensland, the Queensland State Government, three other universities and a range of commercial partners.

A wide range of research and academic institutions collaborate with the industry on projects where goals and available expertise align with specific industry needs. Those organizations include:

Commonwealth Scientific and Industrial Research Organisation (CSIRO)

James Cook University (JCU)

University of Queensland (UQ)

University of Southern Queensland (USQ)

2002 has been a year of achievement for the Australian Sugar Milling Council (ASMC) Workplace Health and Safety (WH&S) Committee, the Government and industry stakeholders. The continuing support of milling companies for the work of the Committee is most appreciated.

Sugar Industry (Workplace Health & Safety) Taskforce

In April 2002 the Minister for Industrial Relations, the Honourable Gordon Nuttall, MP released the Sugar Industry Workplace Health and Safety Taskforce Report and Recommendations. Work on implementing the recommendations began immediately. Three key areas were identified: the development of an Audit tool, the review and update of the Sugar Milling Operations Industry Code of Practice and the development of a Cane Rail Industry Code of Practice. Reference groups comprising representatives from the Division, milling companies and unions are progressing the recommendations. The cane growing and harvesting sectors are also represented on the reference group for the Cane Rail Industry Code of Practice.

The Audit Tool has reached implementation stage after agreement between all parties.

Review of the Sugar Milling Operations Industry Code of Practice has been the responsibility of a special sub-committee formed for the purpose. It is proposed that the Code will include information on the new electrical safety legislation as well as provide links to other relevant material.

The Cane Rail Industry Code of Practice has reached the draft stage and shortly will be sent to the reference group for comment.

Legislation

Changes to the Electrical Safety Act, most of which became effective on 1 November 2002, are intended to ensure improved electrical safety in the industry.

Of particular relevance to mills are the regulations prohibiting work in "live" areas and the creation of exclusion zones where these "live" parts are exposed, for example overhead lines near cane bin recovery operations.

The Electrical Safety Office (ESO) has the responsibility for administering the Act and there is now an ESO Inspectorate. Site visits by ESO Inspectors will be specific to electrical safety.

Annual Safety Conference

The 2002 ASMC Safety Conference was again a success story. Over 130 delegates attended the Conference held in Mackay. Sessions of particular note were *Supervisor Liability and Criminal Negligence* and *Noise Induced Hearing Loss*.

The 2003 Conference will be held in Townsville with the theme of *Achieving Safety Excellence through Line Management*. Dr Gary Larder, a psychiatrist who specializes in behavioural interventions will be the keynote speaker. For the first time, conference participation has been extended to the industry field sector to enable a whole of industry approach to WH&S best practice.

Honours, Appointments and Retirements

Mr GR Davies retired as Chairman of the Mackay Sugar Co-operative Association in November 2002 after distinguished service as Deputy Chairman from 1977 and subsequently Chairman from 1988. Mr Davies was appointed as a Director of the Australian Sugar Milling Council in 1988; and as Chairman from 1995–1997. He was also a member of the Queensland Sugar Board (1988–91), a Member of the Queensland Sugar Corporation (1991–94) and a Director of Queensland Sugar Limited from 1997 to December 2002. Mr Davies was Chairman of Mackay Refined Sugars (1992–98) and is currently Chairman of the Queensland Rural Adjustment Authority.

Mr CE Westcott was appointed Chairman of Mackay Sugar Co-operative Association Limited (previously Deputy Chairman since 1988) following the 2002 Annual General Meeting. In February 2003 he was appointed as a Director of Queensland Sugar Limited.

Mr S Guazzo replaced Mr HR Bonanno as a Director of Sugar Terminals Ltd. **Mr IM McMaster** resigned as Director of Sugar Terminals Limited. **Mr MR Day** was appointed as a Director. **Mr JA Desmarchelier** resigned as Director of STL and was replaced by **Mr AJ Musumeci**.

Mr RK McNee was appointed as a Director of Queensland Sugar Limited in January 2003 replacing Mr HR Bonanno.

Mr CP Hildebrand retired a Chairman of Sugar Research and Development Corporation.

Mr RG Granger was appointed a Chair of the Sugar Research and Development Corporation in November 2002.

Directors of the Sugar Research and Development Corporation are appointed for a term of three years.

Mr JC Baird, Mr DR McGuffog, Mr PS Brennan, Ms RE Jones and Mr IL Fraser relinquished their positions. New appointees to the Board are **Mr D Braddock, Ms P Brown (Purcell), Ms M Corbett, Ms D Day, and Dr D Hogarth**.

Dr RJ Swindells resigned as Chief Executive Officer of Mackay Sugar Co-operative Association and as a Director and Council Member of the Milling Council in December 2002.

Mr JS Pollock was appointed Chief Executive Officer of the Mackay Sugar Co-operative Association Limited in January 2003.

Following the retirement of **Dr DM Hogarth, Dr PG Allsop** has been appointed Manager, Special Projects, Bureau of Sugar Experiment Stations.

Mr DMcK Braddock retired as Managing Director of the Maryborough Sugar Factory Limited in December 2002. **Mr JW Power** was appointed as Chief Executive Officer.

Mr MA Smith and Dr J Burgess were appointed as Directors of Sugar Research Limited.

Mr NK Greenwood, OAM, was awarded the Medal of the Order of Australia (OAM) for his services to the sugar industry and the Proserpine Community. Mr Greenwood served as senior Vice Chairman of Queensland Cane Growers Council and as a Member of Mackay District CANEGRROWERS Executive.

ASMC Members

Bundaberg Sugar Ltd

Managing Director GE Mitchell, AO
 General Manager, Mills Group GD Maclean
 Regional Manager, North Qld. RG Porter

Mills: Tableland, Babinda, Mourilyan, South Johnstone, Millaquin, Bingera, Fairymead and Moreton

Bundaberg Sugar, whose origins date back to 1880, now owns and operates eight sugar mills in Queensland. Tableland Mill is the newest sugar mill in Queensland, the first to be built in 73 years. The company is the largest cane grower in Australia and is part of the Belgian family-owned Finasucre group. It manufactures and markets raw and white sugar and owns the Bundaberg Foundry.

CSR Ltd

Chief Executive Officer CSR Sugar IM McMaster
 General Manager Herbert Region RG Gellweiler
 General Manager Burdekin Region MR Day
 General Manager Plane Creek Region JC Pratt
 General Manager Engineering and Technology JC Baird
 General Manager CSR Ethanol RJ McGregor

Mills: Macknade, Victoria, Invicta, Pioneer, Kalamia, Inkerman, Plane Creek

CSR Sugar owns and operates seven raw sugar mills in Queensland and operates distilleries at Sarina and at Yarraville, Melbourne. In a joint venture with Mackay Sugar Co-operative and Man Group plc, it operates sugar refineries in Mackay and Yarraville; and with the New Zealand Sugar Company Limited has a refinery in Auckland New Zealand. CSR also administers Australian Molasses Trading Pty Ltd.

W H Heck & Sons Pty Limited

Chairman WM Heck, OAM
 Managing Director DWL Heck

The Rocky Point Mill is a privately owned sugar mill in Australia and has been owned by Heck family since it began operation in 1879.

A number of recent innovations include the production of organic certified sugar, and the production and marketing of anhydrous ethanol. An alliance with Stanwell Corporation enables production of up to 30 Mw of electricity for the State grid.

Isis Central Sugar Mill Company Limited

Chairman A Bonanno
 General Manager M Hochen

Isis Central Mill, located in Childers, has been crushing cane since 1896/7. This grower-owned mill is the major contributor to the districts' economy. It was the first mill to produce Queensland High Pol brand sugar for export by Queensland Sugar Limited.

Mackay Sugar Co-operative Association Limited

Chairman C E Westcott
 Chief Executive J S Pollock

Mills: Farleigh, Marian, Pleystowe, Racecourse

Mackay Sugar Cooperative Association is a grower-owned sugar milling and refining entity. It is part of the joint refining venture with Man plc and CSR Ltd. The Mackay region is a major producer of raw sugar in Queensland.

The Maryborough Sugar Factory Limited

Chairman TE Braddock
 Managing Director JW Power

Maryborough Sugar is a public company, having as its principal activities the growing of sugar cane and the manufacture of raw sugar and sugarcane by-products. It also produces Queensland High Pol brand sugar

Mossman Central Mill Company Limited

Chairman	WR Phillips-Turner
General Manager	JA Johnstone

Mossman Mill is grower-owned and is the most northern of Queensland's sugar mills. This mill draws some cane from the Tableland region. The Mill has successfully diversified into aquaculture to more effectively utilise its resources.

The Mulgrave Central Mill Company Limited

Chairman	DR Leighton
General Manager	RT McDowall

Mulgrave Mill is a grower-owned entity and first commenced crushing in 1896. It absorbed the cane lands of the Hambledon mill area in 1992. It took the lead in developing the NIR based analysis system to what it is today.

Proserpine Co-operative Sugar Milling Association Limited

Chairman	FW Dray
General Manager	AJ Musumeci

Proserpine sugar mill first operated in 1897. The grower-owned co-operative formed in 1931. Over the last decade considerable expansion has taken place and there is potential for further growth. Proserpine was the first Australian sugar mill with a single milling tandem to have crushed two million tonnes of cane in one season.

Tully Sugar Limited

Chairman	R Cargnello
General Manager	RE Lewis

Built in 1925 by the Queensland Government, Tully Mill became a grower owned co-operative in 1931. It is now an unlisted public company. The mill is a supplier of electricity to the State grid. Tully Sugar Limited has diversified into property development to add value to the company.

General Manager

JM Craigie, BCom, MBA, LLB, ASA, FARLF

Manager Industrial Relations

PH Warren, G Dip Bus.

Senior Executive Officer

JM Cameron, Dip Sugar Chem, BEcon, MBA.

Policy and Legislation Officer

KJ Thatcher, BA, LLB (Hons)

Project Officer

KP Bol, BBus

Office Co-ordinator

AK Johnstone

Statistical Appendices – Queensland

Table 1: Area Harvested for Milling (Hectares)

	1997	1998	1999	2000	2001	2002
Northern	83,962	85,782	92,069	94,237	90,606	92,676
Herbert-Burdekin	126,346	117,781	133,612	133,108	132,987	130,585
Mackay-Proserpine	117,492	108,473	124,148	126,728	121,624	99,037
Southern	69,667	70,639	71,539	70,277	74,365	70,430
QUEENSLAND	397,467	382,675	421,368	424,350	419,582	392,728

Table 2: Cane Crushed (Tonnes)

	1997	1998	1999	2000	2001	2002
Northern	7,226,549	7,697,282	7,049,651	5,950,578	6,241,178	8,226,369
Herbert-Burdekin	13,606,897	12,095,840	12,627,915	10,285,675	10,455,437	12,899,919
Mackay-Proserpine	11,075,895	11,398,045	10,348,317	7,175,979	7,622,608	9,335,108
Southern	6,217,708	5,976,206	6,919,486	5,369,601	5,524,676	4,705,583
QUEENSLAND	38,127,049	37,167,373	36,945,369	28,781,832	29,843,900	35,166,980

Table 3: Sugar Produced -Tonnes IPS*

	1997	1998	1999	2000	2001	2002
Northern	888,191	843,000	849,751	733,383	751,965	1,110,649
Herbert-Burdekin	1,999,642	1,603,792	1,850,137	1,448,400	1,603,136	1,968,810
Mackay-Proserpine	1,613,609	1,381,669	1,423,817	884,214	1,155,519	1,402,066
Southern	898,950	781,103	951,256	728,266	776,073	651,521
QUEENSLAND	5,400,392	4,609,564	5,074,961	3,794,263	4,286,694	5,133,047

* From 1996, International Pol Scale (IPS) basis

Table 4: Tonnes Cane Per Hectare Harvested

	1997	1998	1999	2000	2001	2002
Northern	86.07	89.03	76.57	63.14	68.88	88.77
Herbert-Burdekin	107.70	102.70	94.51	77.27	78.62	98.79
Mackay-Proserpine	94.27	105.08	83.35	56.63	62.67	94.26
Southern	89.25	84.60	96.72	76.41	74.29	66.81
QUEENSLAND	95.93	97.13	87.68	67.83	71.13	89.55

Table 5: Tonnes Cane Per Tonne IPS Sugar

	1997	1998	1999	2000	2001	2002
Northern	8.14	9.13	8.30	8.11	8.30	7.41
Herbert-Burdekin	6.80	7.54	6.83	7.10	6.52	6.55
Mackay-Proserpine	6.86	8.25	7.27	8.12	6.60	6.66
Southern	6.92	7.65	7.27	7.37	7.12	7.22
QUEENSLAND	7.06	8.06	7.28	7.59	6.96	6.85

Statistical Appendices

Table 6: Tonnes IPS Sugar Per Hectare Harvested

	1997	1998	1999	2000	2001	2002
Northern	10.58	9.83	9.23	7.78	8.30	11.98
Herbert-Burdekin	15.83	13.62	13.85	10.88	12.05	15.08
Mackay-Proserpine	13.73	12.74	11.47	6.98	9.50	14.16
Southern	12.90	11.06	13.30	10.36	10.44	9.25
QUEENSLAND	13.59	12.05	12.04	8.94	10.22	13.07

Table 7: CCS

	1997	1998	1999	2000	2001	2002
Northern	12.09	10.89	12.02	12.61	13.11	13.31
Herbert-Burdekin	14.35	12.85	14.24	14.25	14.90	14.93
Mackay-Proserpine	14.45	12.11	13.51	12.71	14.90	14.79
Southern	14.24	12.91	13.59	13.88	13.87	13.65
QUEENSLAND	13.93	12.23	13.49	13.46	14.34	14.17

Table 8: World Sugar Balance

Year	Production	Consumption	Final Stocks	Stocks to consumption
	Thousand tonnes raw value			%
1992	113,023	112,063	40,309	35.97%
1993	111,608	112,551	37,705	33.50%
1994	116,124	114,971	38,281	33.30%
1995	125,596	117,744	45,730	38.84%
1996	124,262	120,879	46,780	38.70%
1997	128,502	123,118	50,164	40.74%
1998	134,691	125,426	56,766	45.26%
1999	134,212	128,286	61,275	47.76%
2000	131,164	131,384	60,795	46.27%
2001	138,217	133,899	63,160	47.17%
2002 [^]	143,144	136,567	67,704	49.58%

[^] Forecast as at 15.11.2002

Source: FO Licht

Table 9: Qld Raw Sugar Price 1980–2002 \$AUD/Tonne

1980	376	1992	301
1981	275	1993	435
1982	223	1994	382
1983	259	1995	371
1984	226	1996	335
1985	223	1997	335
1986	275	1998	351
1987	287	1999	255
1988	333	2000	253
1989	370	2001	332
1990	341	2002*	275
1991	303		

* Estimate

Source: ASMC Statistics



● Cooktown

Mossman Mill ▲
Mareeba ●
Tableland Mill ▲
Atherton ●
Babinda Mill ▲
Mourilyan Mill ▲
Tully Mill ▲

NORTHERN REGION

Macknade Mill ▲
Ingham ●
Victoria Mill ▲

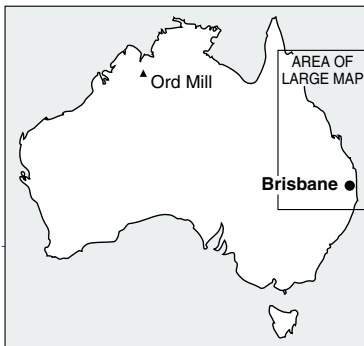
HERBERT/BURDEKIN REGION

TOWNSVILLE ●
Invicta Mill ▲
Pioneer Mill ▲
Inkerman Mill ▲

CENTRAL REGION

QUEENSLAND

Ayr ●
Kalamia Mill ▲
Bowen ●
Proserpine Mill ▲
Marian Mill ▲
MACKAY ●
Pleystowe Mill ▲
Racecourse Mill ▲
Plane Creek Mill ▲

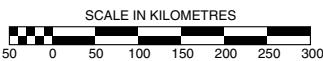


Fairymead Mill ▲
Bingera Mill ▲
Isis Mill ▲
Maryborough ●
Maryborough Mill ▲

SOUTHERN REGION

Moreton Mill ▲
BRISBANE ●
Rocky Point Mill ▲

- Cities and towns
- ▲ Sugar mills
- ← Bulk terminal ports for sugar shipment



NEW SOUTH WALES

Murwillumbah ●
Condong Mill ▲
Lismore ●
Broadwater Mill ▲
Harwood Mill ▲
Grafton ●

NEW SOUTH WALES REGION



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