

IMETT Group
Rocky Point Sugar
Industry Report

2012



Revision History

Revision	Date	Reason	Name
0.A	24/10/2010	Initial Draft	RB
0.B	25/10/2010	Changes applied by Peer Review	MJ SF ME SA BR RB
0.C	25/10/2012	Changes applied by Peer Review	RB
1.0	31/12/2012	Approved for Issue as Draft Final	RB

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Executive Summary

The Rocky Point sugar industry is generally acknowledged to be in decline with ageing farmers, increasing costs and decreasing profitability.

It is also reflected in declining cane production that has resulted in a 39% decrease in annual average cane production from the peak production year of 1998 (438,071 tonnes) when compared with more recent years to 2011 (267,669 tonnes).

This decline was recognised as far back as August, 2005 when the Regional Advisory Group in its Report suggested a co-operative approach be taken to developing a future plan for the District that includes options to transition out of sugar production to lessen the risk of future economic, social and environmental adversity.

More critically, it has become increasingly difficult to access experienced employees for maximising the productivity of the industry and, with the average age of farmers being 59 years as at April 2012 and with a low succession rate to the next generation, the future for continued sugar farming at Rocky Point is limited.

Farmers are experiencing reducing profitability and face few prospects for improvement. Small farm sizes deny farmers the opportunities for economy of scale whilst the returns being achieved by existing sugar cane farmers has meant, in some cases, they are unable to sustain their family units and the traditional inter-generational transfer has broken down.

Sugar cane farmers are generally ineligible for social security due to the value of their farm (the assets test) and farmers have been expected to increase their borrowings or sell their farm if they do not generate enough income from cane growing.

Cane farmers also generally live in houses that are located on their farm land and , if they sell their cane farms, they may require replacement housing.

Exiting sugar cane farmers may also require alternative employment once their farms have been sold to provide them with sufficient income to take them through to retirement. In addition, they also may have to consider the prospects for other family members as part of their decision making.

A substantial number of farmers received significant off farm income, largely from value chain activities such as collection/baling of cane trash for garden mulch. A trash processing plant operates in the Rocky Point district turning cane trash into mulch for the domestic market.

Australia's sugar industry success has been built on world's best practice in production, handling and marketing, and a reputation for quality, supply reliability and service.

Over the past five years however the Australian sugar industry has been affected by a range of challenges including Cyclone Larry, the fungal disease “smut”, high fertiliser prices, a strengthening Australian dollar and wide volatility in world sugar prices with rapid spikes immediately followed by equally rapid falls.

The Rocky Point Sugar District represents around 1% of the total Australian sugar production but has struggled to remain commercially viable since de-regulation.

The IMETT proposal to develop an integrated motorsport, education, tourism and technology project on a marginal area of the sugar land at Norwell has provided an opportunity to re-consider the issues facing the sugar industry at Rocky Point.

The Commonwealth and Queensland Governments, as well as the Gold Coast City Council, have all actively supported the expansion of the sugar industry over many years with policy initiatives and the provision of grants. In addition, all have assisted with industry re-structuring grants to improve efficiencies or to facilitate change.

The known grants for the Rocky Point Sugar District between 1990 and 2007 exceeded \$90,000,000 but, despite this significant expenditure, the sugar industry in Rocky Point is still in decline. Significant grants include:

- A government grant in 1990 provided for the initial development of an ethanol distillery at Rocky Point, and this was followed by a further Commonwealth Government grant for expansion in 2004. Ethanol production was subsequently discontinued in 2008 after problems were experienced with the distillery expansion programme.
- In 2000, the State Government owned Stanwell Corporation invested some \$65 million in an electricity cogeneration project at Rocky Point. The Global Economic Crisis of 2008/09 has, however, impacted on the financial viability of the existing owners, resulting in a corporate re-structuring. The operation of the cogeneration plant suffered from a number of maintenance issues during the 2010 crushing season that slowed the harvest, before substantial damage to a boiler resulted in the co-generation plant being placed into receivership in January 2012. The co-generation plant was finally sold in mid-2012 and the crushing season started some two months later than usual.

The CSIRO conducted a study of the Rocky Point District in 2006/07, considering existing and possible agricultural options. The Future Use of the Rocky Point Cane Landscapes Report was released in 2007 and concluded that only the few large farms in the region were likely to turn a profit with conventional enterprise options.

The Report noted the District's typically smaller farms were run on a part-time basis, supplemented by (and effectively subsidised from) off-farm income. The wide availability of paid employment in the region made the District well suited for part time farming where a substantial part of the farm-household's income is from off-farm sources.

The Report also determined the potential for a profitable farming enterprise in the Rocky Point region was likely to be limited to the larger sugarcane farms.

The CSIRO report demonstrated that it is no longer commercially viable to grow sugar cane long term in the Rocky Point Sugar District, and that the alternative crop varieties considered in the report do not represent commercial alternatives for the cane farmers.

The IMETT Project has been proposed for land that is located at Norwell, forming part of the Rocky Point Sugar District. The profile of the immediate demographic is that of the sugar industry, and IMETT has identified the need for economic security for those who wish to maintain their existing lifestyle.

Before actively considering the Norwell location, however, IMETT initiated its own assessment of the Rocky Point sugar industry that also considered whether the IMETT project could co-exist with the existing sugar industry.

Suitability maps produced by the Department of Environment and Natural Resources indicated that 8,709 ha of land were biophysically suitable for sugar cane with minor or moderate limitations and a further 1,867 ha of land were marginal for sugarcane.

Of the 10,576 ha of suitable sugar cane land located across the Rocky Point Sugar District, IMETT is expected to develop some 595 ha, representing 5.67% of the available land area.

The area of land proposed for the IMETT Project was also less than the annual variation of the land area being harvested in the Rocky Point Sugar District on four occasions over an eight year period between 2003 and 2011.

The majority of the land identified for the development of the IMETT Project has been classified by the Department of Environment and Natural Resources as being Class B land and is considered as being marginal for the growing of sugar cane.

The assessment determined that the IMETT Project would not have a detrimental impact on the Rocky Point sugar industry but, more importantly, could provide the industry with the transition plan that had been suggested in the Regional Advisory Group (South) document, "Report Into the Reform of the Sugar Industry In The South Region" - A Strategic Plan for the Maryborough, Sunshine Coast and Rocky Point Districts, published in August 2005.

It has been suggested the IMETT Project may have already offered the cane farmers a lifeline since mid-2006 when it first offered “above market” prices for the purchase of sugar cane land that, in effect, became the benchmark for the price of rural land in the district.

This has benefited all cane farmers in the Rocky Point Sugar District, and not just those selling to IMETT.

With the IMETT Project also creating some 5,000 new jobs, it is likely that a number of farmers and their families will take up employment with IMETT on a full time or part time basis.

With their day to day expenses covered by a regular weekly income, those farmers (and their families) may well be able to remain on the land growing sugar cane for much longer than they would otherwise be able if their only income was from sugar cane. In this manner, the variable and marginal returns from cane farming would represent a “bonus” and, thereby, may possibly extend the life of the sugar industry in the district beyond its commercial “use by” date. This will offer an orderly transition for those cane farmers wishing to exit the industry.

IMETT has offered its own transition plan for the Rocky Point sugar industry, offering to employ existing cane farmers and their families on either a full time or part time basis, subject to suitability and the usual employment conditions. This offer provides dignity for the 250 people currently employed in the Rocky Point sugar industry, and is not dependent on government grants to support the sugar industry.

In turn, this IMETT transition plan may extend the life of the existing Rocky Point sugar industry beyond its normal commercial circumstances by providing cane farmers with an option to become part time sugar farmers and incurring a lower cost of production by not having to allocate the cost of wages to their farms.

1 Introduction

The sugar industry is a significant agricultural industry in Australia, with almost 95% of all sugar cane grown in Queensland.

Sugar has been an important part of the regional Queensland economy for more than 100 years, and played a very significant role in the decentralisation of Queensland and northern New South Wales.

Changing industry conditions and fluctuating world sugar prices have however impacted on the Australian sugar industry and, in particular, the small Rocky Point Sugar District located between the Gold Coast and Brisbane.

This District represents around 1% of the total Australian sugar production but has been struggling to remain commercially viable since de-regulation despite a number of innovative programmes.

The IMETT proposal to develop an integrated motorsport, education, tourism and technology project on a marginal part of the sugar land at Norwell has provided an opportunity to re-consider the issues facing the sugar industry at Rocky Point.

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2 Overview – Australian Sugar Industry

2.1 History of Sugar Industry in Queensland

The first sugar cane brought to Australia arrived with the first fleet.

Initial attempts to grow sugarcane were unsuccessful but Captain Louis Hope and John Buhot finally established the first plantation at Ormiston near Brisbane in 1862, and then operated Australia's first sugar mill in 1864.

The Colonial Sugar Refining Company (now CSR Limited) was established in 1870, introducing a system of large central sugar mills supplied by independent growers in northern New South Wales.

In 1889, the world's first mechanical cane harvester was built in Bundaberg.

Australia introduced protective import duties on sugar imports in 1901. Queensland passed the Sugar Acquisition Act and Regulation of Sugar Prices Act in 1915, the Commonwealth and Queensland Governments negotiated the first sugar agreement, and an embargo was placed on imported sugar.

In 1923 the Australian Government handed control of the sugar industry to the Queensland Government, and a Sugar Board was established. The first large exports of raw sugar (74,000 tonnes) from Australia were made in 1924.

The first International Sugar Agreement was negotiated in 1937 but was not activated due to the onset of World War 2. It subsequently commenced in 1953, with quotas negotiated for exporters.

Bulk handling of raw sugar was introduced in 1954, and Australia exported one million tonnes of raw sugar for the first time in 1962. The Queensland Government recommended expansion of the sugar industry, and by 1968 Australia exported two million tonnes of raw sugar for the first time.

In 1974, raw sugar reached a record high world price of US 66 cents per pound on the New York Futures market, and then reached a record low world price of US 2.5 cents per pound in 1985.

Responding to the dramatic change in sugar industry economics, the Commonwealth, Queensland and New South Wales Governments agreed on a sugar industry assistance and restructuring package to be implemented over a three year period.

The Commonwealth Government Sugar Agreement lapsed in 1989, and the embargo on sugar imports was lifted whilst tariff was implemented. In 1991 the import tariff was reduced from \$115 per tonne to \$76 per tonne.

The Queensland Sugar Corporation was established in 1991 replacing the Sugar Board, whilst the Central Sugarcane Prices Board, Sugar Acquisition Act 1915 and Regulation of Sugarcane Prices Act 1915 were repealed.

By 1993, the availability of additional cane assignment exceeded demand for the first time, indicating that the assignment system was no longer a constraint on production.

Queensland emerged as the world's largest raw sugar exporter in 1994, and the world's largest shipment of raw sugar (61,300 tonnes) was shipped from Townsville to Dubai in 1995.

By that time, sugar had surpassed beef production as Queensland's largest rural industry, and Queensland's sugar production was a record 5.4 million tonnes.

The Commonwealth Government subsequently introduced a further Sugar Industry Assistance Package in 2000, and the industry was fully de-regulated in 2006

2.2 Government Policy

Australian Government

The Australian Government handed control of the sugar industry to the Queensland Government in 1923, and, apart from participation in the negotiation of international agreements, it was many years before the Australian Government got actively involved in the policy direction and management of the sugar industry.

Fluctuating industry economics necessitated a review of the sugar industry, and the Commonwealth Industries Assistance Commission held an enquiry into the sugar industry in 1978, followed by a further enquiry in 1983.

By 1986, the Commonwealth Government participated in a sugar industry assistance and restructuring package that ultimately lead to industry de-regulation through a series of policy measures enacted between 1989 and 2000.

Further industry re-structuring packages were announced by the Commonwealth in 1993, 2000 and in 2005.

Queensland Government

The Queensland Government gained control of the sugar industry in 1923 and immediately moved to expand the industry, as well as developing the export market.

The bulk handling of sugar was introduced, long term contracts were negotiated and industry expansion encouraged.

Fluctuating industry economics in the 1980's however necessitated the involvement of the Commonwealth Government, and in 1991 the Industry Commission established an inquiry into Queensland's production, institutional and regulatory arrangements.

A series of sugar industry re-structuring packages resulted in the Queensland Government progressively relinquishing control of the sugar industry in favour of a de-regulated market in 2000.

2.3 Current Status

Sugar cane is one of the more important crops produced by the Australian agricultural sector, and is generally grown in the coastal regions from Mossman in north Queensland to Grafton in northern New South Wales.

Sugar accounts for approx 6% of the total value of agricultural production, and is the second most valuable broad acre crop behind wheat producing between \$1.5 and \$2.5 billion to the Australian economy each year.

According to the Canegrowers Australia Annual Report for 2010/11, approx 4,000 cane farming businesses supplied more than 27.3 million tonnes of cane to 25 sugar mills. Most mills crushed an average 10,000 tonnes of cane daily and employed around 150 people during the season. Millers, farmers and harvesters worked together to ensure the cane was crushed as fresh as possible, with the average cut to crush time being less than 12 hours.

Australia's success has been built on world's best practice in production, handling and marketing, and a reputation for quality, supply reliability and service.

Over the past five years however the Australian sugar industry has been affected by a range of challenges including Cyclone Larry, the fungal disease "smut", high fertiliser prices, a strengthening Australian dollar and wide variations in the world sugar price.

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3 International Sugar Industry

3.1 World Sugar Production

According to the September 2012 edition of ABARES Agricultural Commodities, world sugar production was forecast to increase by 3.8 million tonnes in 2012/13 to a record of around 178 million tonnes. Increased sugar production was forecast for all regions except the European Union.

Brazilian sugar production was forecast to increase to 38.6 million tonnes in 2012/13 after two years of declining production, and the sugar share of cane production was forecast to decline to 48.5%.

Indian sugar production was forecast to expand because it is expected to be more profitable than wheat and corn.

Chinese sugar production was expected to rise to 13.6 million tonnes in 2012/13 driven by a 4% increase in the areas planted to sugar cane and sugar beet

Australian sugar production was forecast to increase to 4.5 million tonnes as a result of an increase in the area harvested and higher sugar yields aided by hot dry weather in the harvesting period. Sugar yields were relatively low in 2011/12 with large areas of cane carried over from 2010/11 due to excessive rainfall.

It was expected world sugar exports will increase by around 5% to 56.1 million tonnes in 2012/13, and this was expected to allow world stocks of sugar to increase to 68.8 million tonnes.

If realised, this will increase the stocks-to-use ratio by 2.9% to around 40%, the highest since 2007/08, but still slightly below the average of 41% in the 10 years to 2010/11.

3.2 World Sugar Prices

World sugar prices have been volatile for many years with rapid spikes immediately followed by equally rapid falls.

The world indicator price for raw sugar is forecast to decline by around 20% in 2012/13 to average US 18 cents a pound. The forecast price decline reflects large closing stocks in 2011/12 and higher production than consumption in 2012/13. A downside risk to this price forecast is the expected record world production leading to higher closing stocks in 2012/13, which has the potential to put further downward pressure on world prices.

Queensland Sugar Limited ended the 2011/12 season with a harvest pool return of \$518 per tonne, up from \$444 a tonne in 2010/11.

Queensland Sugar Limited seasonal pool arrangement was replaced in 2012/13 by a harvest pool arrangement in response to marketing problems caused by the sugar production shortfall in 2010/11. The Australian sugar millers that are party to the Raw Sugar Supply Agreement with Queensland Sugar Limited must have a minimum 35% of their declared raw sugar supply estimate allocated to this pool. These millers supply more than 90% of Australia's raw sugar exports, and QSL is forecasting its 2012/13 harvest pool return to be \$462 a tonne.

Graph Sugar industry prices



Notes: Commodity price chart for Sugar. Units: U.S. cents per kilogram
Source: Mongabay News Website

3.3 Impact on Australia

At the time of writing this report, the 2012 Australian sugar cane harvest is well advanced.

Extremely wet weather throughout the first half of the 2011 harvest slowed the harvest arrangements. In some cases this has extended the harvesting date whilst, in others, it resulted in an early completion (with the cane being carried over to the 2012 cane season).

According to industry sources, above average prices for cane sugar are forecast to continue, although a downturn is expected in 2012/13.

The sugar cane area cut in 2011 was 353,072 ha, up 36.8% on the 258,184 ha cut in 2010.

Production of sugar cane was forecast to increase, and the CCS has been lower than in recent years due to the variable weather conditions.

Australian agricultural commodity markets are reliant on export markets and the impact of the Australian dollar due to the small domestic market. For 2012, the Australian dollar has remained high, putting further pressure on financial returns to farmers.

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4 Rocky Point District Sugar Industry

4.1 History of the Local Sugar Industry

The district was first established by Robert Johnson in 1864 and quickly developed into an important sugar growing area due to its proximity to the Moreton Bay settlement.

The first sugar mill was established by Davey and Gooding in 1867, and the Rocky Point Sugar Mill opened in 1879. By 1885 there were thirty mills in the district; however the Rocky Point Sugar Mill is the only mill still in operation.

The land area available for sugar cane production expanded substantially during the period between the late 1950's and the 1970's as demand for Australian sugar exports grew and the Queensland Government recommended expansion of the industry.

By the late 1970's a record low world price for sugar resulted in Commonwealth intervention and support for the Australian sugar industry. This provided for a series of industry re-structuring initiatives, and the parties comprising the Rocky Point Sugar District received a variety of government grants to support the industry.

In 1990, the Rocky Point Sugar Mill commissioned an ethanol distillery on site to add value to the molasses side stream however, despite the approval of a \$2.4 million grant from the Commonwealth Government, the distillery closed in 2008.

4.2 Current Structure

The Rocky Point Sugar District, 60km south of Brisbane, is situated in a sugarcane belt of approximately 6500 hectares. It is located in a landlocked area around the Mill and there is limited scope for horizontal expansion.

The Rocky Point Sugar District's contribution to Queensland sugar production is approx 1% of the State's total production.

The District had been recognised as a leader in industry reform during the 1990's, primarily as a result of its low throughput, and its need to diversify and develop "niche" markets for sugar products and complementary processes.

At that time it was reported as being the most modern sugar cane processing plant in Australia, having undertaken a \$13 million upgrade in order to connect to a 30 MW cogeneration plant. However maintenance has been a problem, with the aging plant having periods of downtime due to maintenance requirements.

In 2005, the Mill's critical production mass to remain viable was reported to be around 290,000 tonnes but this volume has only been achieved once since 2005. With higher production costs and the stronger Australian dollar it is possible the production tonnage may have also increased since that time.

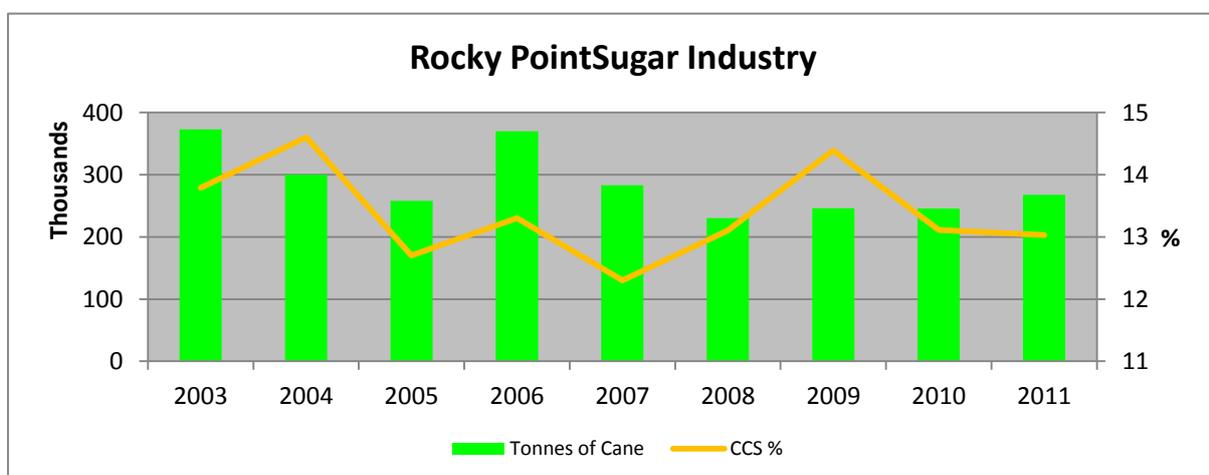
A substantial number of farmers received significant off farm income, largely from value chain activities such as collection/baling of cane trash for garden mulch. A trash processing plant operates in the Rocky Point district turning cane trash into mulch for the domestic market (Coles, Woolworths, Mitre 10, and Bunnings).

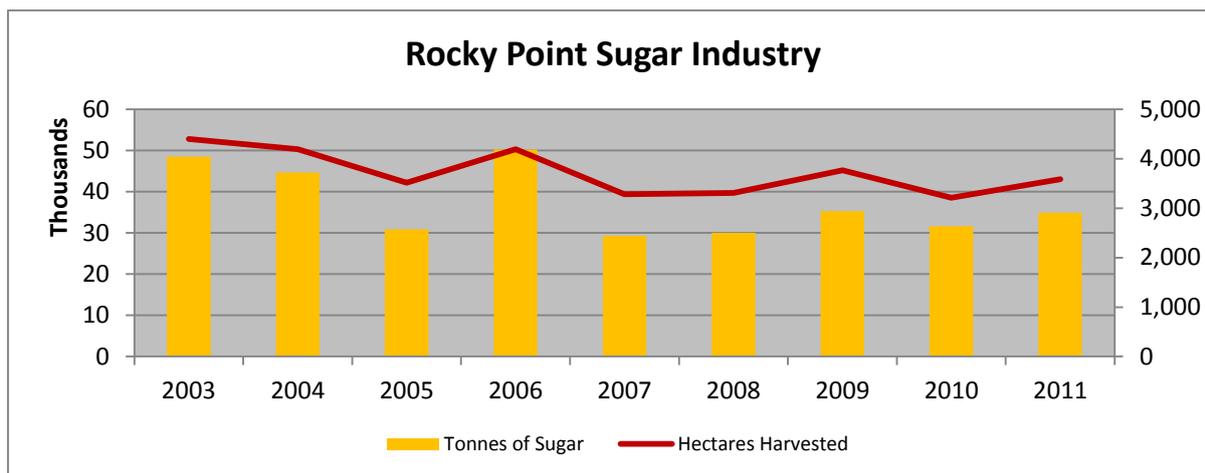
Since 2006, growers have moved into harvesting partnerships as a cost reduction exercise and as a result the number of sugar cane harvesters in the district has reduced in line with the reduction in the district's cane production capability.

More critically, it has become increasingly difficult to access experienced employees for maximising the productivity of the industry and, with the average age of farmers being 59 years as at April 2012 and a lack of succession to the next generation, the future for continued sugar farming at Rocky Point is bleak.

This was recognised as far back as 2005 when the Regional Advisory Group in its Report suggested a co-operative approach be taken to developing a future plan for the District that includes options to transition out of sugar production to lessen the risk of future economic, social and environmental adversity for the region.

Graph Sugar Production – Rocky Point Sugar Industry





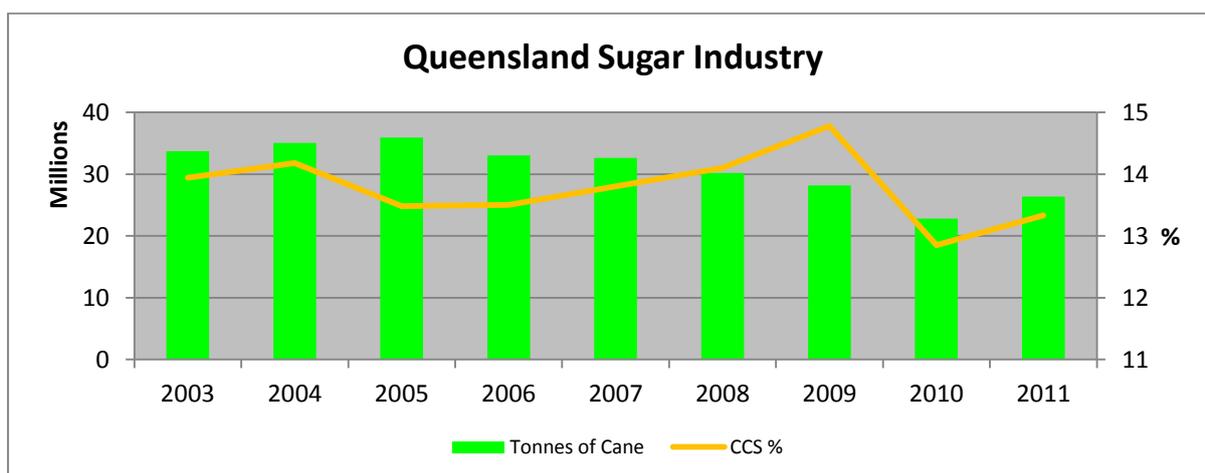
4.3 Production

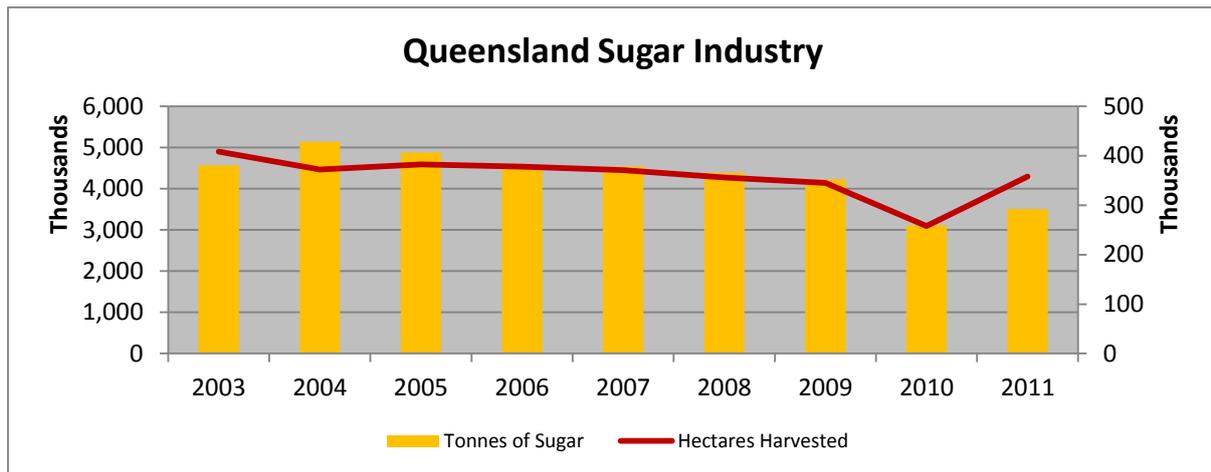
Cane is bulky and relatively expensive to transport. It must be processed as soon as possible to minimise sucrose deterioration.

Following the arrival of the cane at the mill, it is sliced and the juice is squeezed out. The remaining fibre or bagasse from the cane is sent by conveyer to the 30MW cogeneration plant and is used to produce 'green' electricity.

Over the six seasons (between 2006-2011) the Rocky Point sugar mill crushed an average of 273,000 tonnes of sugarcane, well below the breakeven level of 290,000 tonnes reported in 2005.

Graph Sugar Production – Queensland Sugar Industry





4.4 Government Grants

The Commonwealth and Queensland Governments, as well as the Gold Coast City Council, have all actively supported the expansion of the sugar industry over many years with the provision of grants.

In addition, all have assisted with industry re-structuring grants to improve efficiencies or to facilitate change.

The following known grants for the Rocky Point Sugar District have been recorded between 1990 and 2007. It may not represent a complete listing of all grants, particularly during the period between 1990 and 1998.

Date	Amount	Entity	Programme	Purpose
11 Dec 2006	\$ 132,500	Rocky Point Co-operative Ltd	Federal - Regional & Community Projects Scheme – Sugar Industry Reform Programme 2004	To encourage the use of new farm management systems by providing the Co-op with equipment to make the process more cost effective.
11 Dec 2006	\$ 500,000	Rocky Point Sugar Mill	Federal - Regional & Community Projects Scheme – Sugar Industry Reform Programme 2004	To modify infrastructure at the Rocky Point Sugar Mill, Improving ethanol production as well as the extraction of organic sugar and high quality conventional sugar from cane.

Date	Amount	Entity	Programme	Purpose
04 Sep 2006	\$ 71,163	Schumar Pty Ltd (Rocky Point Sugar Mill & Distillery)	State – 2006 Ethanol Production Grants Programme	
May 2006	\$ 154,351	Rocky Point	Federal -	For 3 major projects at Rocky Point
09 Feb 2006	\$ 122,100	Rocky Point Mulching Pty Ltd	State – Sugar Industry Innovation Fund	To establish a plant to process cane trash into a new product called “Cane Subs” which are compacted tubes of cane mulch wrapped in biodegradable netting and sold primarily for use in the control of soil erosion – producing 170 tonnes of product in the first year increasing to 396 tonnes in the third year
09 Feb 2006	\$ 115,948	WH Heck & Sons and Rocky Point Sugar Cane Farmers	State – Sugar Industry Innovation Fund	Rocky Point Sugar Region Future Sustainability Project to secure a sustainable agriculture future for the region
22 Jun 2004	\$ 2,400,000	Schumer Pty Ltd (Rocky Point Sugar Mill & Distillery)	Federal - Biofuels Grant programme	To expand Australia’s Biofuels production capacity – specifically at the Woongoolba facility to 15 million litres
12 Nov 2002	\$ 110,000	WH Heck & Sons Pty Ltd	Federal – Pilot Commercialisation Project Grant – New Industries Development Programme	To construct a trial processing facility for sugar cake using a by-product of sugar and its end use is as a fermentation input in the production of Sake

Date	Amount	Entity	Programme	Purpose
2000	\$30,500,000	Various end users including sugar cane farmers for irrigation purposes and the Rocky Point Co-Generation Plant for cooling waters for the plant	State – Local Governing Bodies Capital Works Subsidy Scheme (\$10,000,000)	Gold Coast City Council Northern Wastewater Strategy designed to distribute 20 million litres of treated wastewater per day – Strategy adopted in 1996 – Wastewater Scheme adopted in 1998 – dam site (former quarry) purchased in 2000 – construction commenced in November 2003 – first stage completed in February 2005
1999	\$55,000,000 (later privately reported to be as high as \$92,000,000)	WH Heck & Sons and Stanwell Corporation Pty Ltd	State – construction funded by the State Government owned Stanwell Corporation	For the design and installation of a 30 Mw Co-Generation Plant attached to the Rocky Point Sugar Mill – construction commenced in May 2000 and was commissioned in 2001 – after ongoing problems, Stanwell Corporation sold the Co-Generation plant to Babcock and Brown for \$5,000,000 in June 2006
22 Dec 1998	\$ 3,000,000	WH Heck & Sons and Stanwell Corporation Pty Ltd	Federal – Renewable Energy Commercialisation Programme	To build and integrate a 30 Mw Biomass Co-Generation Plant to operate all year round using re-newable biomass such as bagasse and locally sourced waste

Date	Amount	Entity	Programme	Purpose
14 Jul 1998	\$ 350,000	Rocky Point Sugar Mill	Federal – Renewable Energy Industry Programme Grants	Demonstrate the feasibility of using existing co-generation plant
1990	\$	Rocky Point Sugar Mill		To build an ethanol distillery on site and to value add the molasses side stream

4.5 Diversification

Both the owners of the Rocky Point mill and the farmers have sought to diversify their opportunities to extend the life of the sugar industry in the District.

The most obvious efforts to diversify included the production of ethanol and the burning of green wastes for the cogeneration of electricity.

A government grant in 1990 provided for the initial development of an ethanol distillery at Rocky Point, and this was followed by a further \$2.4 million Commonwealth Government grant for expansion in 2004. Ethanol production was subsequently discontinued in 2008 after problems were experienced with the distillery expansion programme.

In 2000, the State Government owned Stanwell Corporation invested some \$65 million in an electricity cogeneration project at Rocky Point.

The cogeneration plant was commissioned in February 2002 however the Stanwell Corporation experienced substantial problems in making the energy cogeneration project work, and faced environmental fines for allowing contaminated water to be dumped in the Logan River, killing fish.

Problems with water supply and fuel resulted in Stanwell Corporation writing down the value of the Rocky Point plant.

Stanwell Corporation subsequently sold the cogeneration plant for \$5 million to Babcock and Brown, and its joint venture partner US company National Power in June 2006 following a tender process.

The plant generates 30 megawatts of green energy using 30 to 35 tonnes per hour of green and woody waste (depending on the moisture content). When using the processed cane (40 tonnes per hour of bagasse) and some waste (10 tonnes per hour) it generates 20 megawatts of green energy and 70 tonnes of steam per hour which is used to power the Rocky Point mill.

The cogeneration plant was built to operate for 20 years (from 2001 to 2020). The Global Economic Crisis of 2008/09 has, however, impacted on the financial viability of Babcock and Brown, resulting in a corporate re-structuring. The co-generation plant was subsequently sold in mid 2012.

Importantly, a significant but declining proportion of feedstock is extracted from the mill as bagasse. When bagasse is not available eg during non harvest periods or as a result of lower cane production, the energy plant sources green and woody wastes from the surrounding local councils.

The Rocky Point District was also a major beneficiary of the Gold Coast City Council's Northern Wastewater Strategy and Reclaimed Water Scheme, which made available water for cane farming properties and provides water to the co-generation plant.

4.6 Issues

Farmers are experiencing reducing profitability and face few prospects for improvement. Small farm sizes deny farmers the opportunities for economy of scale whilst the returns being achieved by existing sugar cane farmers mean they are unable to sustain their family units and the traditional inter-generational transfer has broken down.

Sugar cane farmers are generally ineligible for social security due to the value of their farm (the assets test) and farmers have been expected to increase their borrowings or sell their farm if they do not generate enough income from cane growing.

Cane farmers generally live in houses that are located on their farm land and, if they sell their cane farms, they may require replacement housing.

Some exiting sugar cane farmers may also be likely to require alternative employment once their farms have been sold to provide them with sufficient income to take them through to retirement. They also may have to consider the prospects for other family members as part of their decision making.

5 Options for Rocky Point District

5.1 Report into The Reform of The Sugar Industry in the South Region 2005

As part of the Sugar Industry Reform Package 2004, the Commonwealth Government created Regional Advisory Groups (RAG) to develop and implement regionally based plans that would provide:

- A framework for improved environmental, social and economic outcomes in the region
- A programme for ensuring the adoption of a whole of industry systems approach for pursuing efficiency, productivity and profitability gains
- A realistic assessment of a region's capacity to produce and export raw sugar against worse case scenario forecasts
- An examination of the alternatives for the sugar industry, including alternative crops and alternative economic activities
- A programme for developing the business skills and capacity for industry participants

The membership of the South RAG comprised seven members and included the owner of the Rocky Point sugar mill, Mr David Heck.

Their report, "Report into The Reform of The Sugar Industry in the South Region", was released in August 2005 and offered a strategic plan for the Maryborough, Sunshine Coast and Rocky Point Districts.

The Rocky Point section of the report noted the industry comprised approximately 1% of the total Australian sugar production, and this was produced by 61 cane growing entities. The report also noted the decrease in the area harvested relative to the decrease in cane production area was significant, and that a clear indication of declining cane production with one of the lowest yields in ten years was recorded in 2004.

Importantly, a key point was that the objective of the plan that was prepared for the Rocky Point sugar district was to maintain sugar production in the short term.

The RAG considered a timeframe of continued sugar cane production over the five year period 2005-2009 would be consistent with planning restrictions for the district.

Moreover, the RAG suggested a co-operative approach to developing a future plan for the district that included options to transition out of sugar production was essential to lessen the risk of future economic, social and environmental adversity.

5.2 CSIRO Study 2007

Building on the report of the Regional Advisory Group (South), the CSIRO conducted a study of the Rocky Point District in 2006/07, that considered existing and possible agricultural options.

The Future Use of the Rocky Point Cane Landscapes Report was released in 2007 and concluded that only the few large farms in the region were likely to turn a profit with conventional enterprise options.

The Report noted the district's typically smaller farms were run on a part-time basis, supplemented by (and effectively subsidised from) off-farm income. The wide availability of paid employment in the region made the district well suited for part time farming where a substantial part of the farm-household's income is from off-farm sources.

The Report also determined the potential for a profitable farming enterprise in the Rocky Point region was likely to be limited to the larger sugarcane farms.

The farm-household survey conducted by CSIRO as part of its study also indicated that there was limited financial and psychological capacity in the region to radically change farming enterprise mixes. For the majority, the preferred option would be the continuation of producing sugarcane.

Any future large scale changes in crop enterprise would need to be driven by a combination of the larger growers on existing farms and new producers either leasing land for production or establishing high value enterprises on smaller areas.

Suitability for agricultural production is largely dictated by the varying soil types found across the region. The Rocky Point area is prone to flooding as a result of the predominantly summer rainfall pattern and generally poor soil permeability in many areas.

The majority of the area lies within the extent of a 100 ARI flooding event. In contrast, the dry winter months are characterised by prolonged periods of low plant available soil moisture.

The general lack of affordable irrigation infrastructure throughout the district means that crop stress is inevitable during these periods. The Rocky Point area therefore can be thought of as experiencing periods of over and undersupply with regard to crop water availability.

It should be noted that the crops and enterprises selected for assessment of suitability by CSIRO were those identified by the greatest proportion of canegrowers responding to a questionnaire as being likely to be undertaken as a means of achieving a viable financial income. Twenty-four crops or enterprises were assessed for the Rocky Point area including six broad-acre crops, six tree or vine crops, seven horticulture crops and five other crops (including amenity horticulture and native foods).

This method of selecting the crop species for assessment by CSIRO inevitably excluded a number of potentially suitable options for the area such as sweet corn, cucurbits, capsicum and a range of forestry uses. These and other uses had been assessed for suitability by the Department of Environment and Resource Management.

It was also noted that most cultivated crops at Rocky Point generally require supplementary irrigation for economically viable production, however there is presently little irrigation infrastructure in the region.

5.3 IMETT Project and Transition Opportunity

The IMETT Project has been proposed for land that is located at Norwell, forming part of the Rocky Point Sugar District. The profile of the immediate demographic is that of the sugar industry, and IMETT has identified the need for economic security for those who wish to maintain their existing lifestyle.

Before actively considering the Norwell location, however, IMETT conducted its own internal assessment of the Rocky Point sugar industry that also considered whether the IMETT project could co-exist with the existing sugar industry.

Suitability maps produced by the Department of Environment and Natural Resources indicated that 8,709 ha of land were biophysically suitable for sugar cane with minor or moderate limitations and a further 1,867 ha of land were marginal for sugarcane.

Of the 10,576 ha of suitable sugar cane land located across the Rocky Point Sugar District, IMETT is expected to develop some 595 ha, representing 5.67% of the available land area.

The majority of the land identified for the development of the IMETT Project has been classified by the Department of Environment and Resource Management (DERM) as being marginal (Class B) for the growing of sugar cane.

The Rocky Point sugar industry is generally acknowledged to be in long term decline.

Changing economic circumstances and the declining profitability of the sugar industry in the Rocky Point Sugar District has meant the next generation of sons and daughters have already sought employment outside of the sugar industry and, in some cases, out of the district.

The IMETT assessment determined that the IMETT Project would not have a detrimental impact on the Rocky Point sugar industry but, more importantly, could provide the industry with the transition plan that had been suggested in the Regional Advisory Group (South) document, “Report Into the Reform of the Sugar Industry In The South Region” - A Strategic Plan for the Maryborough, Sunshine Coast and Rocky Point Districts, published in August 2005.

It has been suggested the IMETT Project has already offered the cane farmers a lifeline since mid 2006 when it first offered “above market” prices for the purchase of sugar cane land that, in effect, became the benchmark for the price of rural land in the area. This has benefited all cane farmers in the Rocky Point Sugar District, and not just those selling to IMETT.

With the IMETT Project also creating some 5,000 new jobs, it is possible that a number of farmers and their families may take up employment with IMETT on a full time or part time basis.

With their day to day expenses covered by a regular weekly income, those farmers (and their families) may well be able to remain on the land growing sugar cane for much longer than they would otherwise be able if their only income was from sugar cane.

In this manner, the variable and marginal returns from cane farming would represent a “bonus” and, thereby, may possibly extend the life of the sugar industry in the district beyond its commercial “use by” date. This will offer an orderly transition for those cane farmers wishing to exit the industry.

6 Summary

The CSIRO report demonstrated that whilst it is no longer commercially viable to grow sugar cane long term in the Rocky Point Sugar District, and that the alternative crop varieties considered in the report do not represent commercial alternatives for the cane farmers.

The existing cane farmers will continue to farm in decreasing numbers as age and financial considerations take their inevitable toll.

This was acknowledged in the South RAG report which advised “the need for a co-operative approach to developing a future plan that identifies a series of options to transition out of sugarcane production to ensure the social, economic and environmental impacts are minimised.”

In addition, the area of cane land in the Rocky Point Sugar District being harvested has also fluctuated substantially over the period 2000-2011, with variations both up and down in excess of 500 ha of land being recorded on five occasions over the eleven seasons, and a further four occasions where the annual variation exceeded 300 ha.

IMETT has offered its own transition plan for the Rocky Point sugar industry, offering to employ existing cane farmers and their families on either a full time or part time basis, subject to suitability and the usual employment conditions.

This offer provides dignity for the 250 people currently employed in the sugar industry, and is not dependant on government grants to support the sugar industry.

In turn, this IMETT transition plan may extend the life of the existing Rocky Point sugar industry beyond its normal commercial circumstances by providing cane farmers with an option to become part time sugar farmers and incurring a lower cost of production by not having to allocate wages to their farms.

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7 References

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Attachment A

Sugar Industry Statistics

Queensland Sugar Industry

Year	Tonnes of Cane	Tonnes of Sugar	CCS % (commercial cane sugar)	Hectares Harvested
2011	26,339,444	3,505,858	13.33	353,072
2010	22,822,166	3,109,564	12.85	258,184
2009	28,180,815	4,228,507	14.78	345,049
2008	30,177,369	4,384,424	14.10	355,814
2007	32,622,201	4,533,773	13.80	371,116
2006	33,023,609	4,506,579	13.50	378,046
2005	35,900,148	4,876,532	13.48	382,610
2004	35,059,603	5,137,850	14.18	372,424
2003	33,671,955	4,564,688	13.94	408,544

Source: Australian Canegrowers Annual Reports

Rocky Point Sugar District

Year	Tonnes of Cane	Tonnes of Sugar	CCS % (commercial cane sugar)	Hectares Harvested
2011	267,669	34,877	13.03	3,586
2010	245,757	31,629	13.11	3,211
2009	245,815	35,254	14.39	3,764
2008	230,106	30,000	13.10	3,308
2007	282,862	29,293	12.30	3,282
2006	369,895	50,224	13.30	4,193
2005	257,604	30,847	12.70	3,516
2004	300,006	44,652	14.60	4,194
2003	372,725	48,525	13.79	4,396
2002	286,116		13.15	4,063
2001	432,855		13.83	4,558
2000	331,727		13.64	3,501

Source: Australian Canegrowers Annual Reports