



SUGAR OUTLOOK TO 2008-09

low prices to continue for the medium term

Richard Perry, Andrew Jacenko and Ian Shaw

- **The world indicator raw sugar price is forecast to rise to average around US7.5c/lb in 2004-05.**
- **Leading exporter Brazil will remain the dominant influence on future world sugar supplies and prices.**
- **Returns in the Australian industry are very low because of low world prices combined with exchange rate factors.**
- **Rising protectionism in the Russian Federation and continued resistance to reforming the highly distorted sugar markets of the European Union and the United States will be negative for world prices over the medium term.**

in Cuba, the Russian Federation and some eastern bloc countries. Thailand, the second largest net exporter, is likely to produce a slightly smaller crop in 2004-05.

Sugar production growth in Brazil appears likely to continue, albeit at a slower pace than in recent years. The Brazilian sugar industry has benefited from relatively recent deregulation to expand production into vast underutilised land areas. Brazil's low domestic currency values and readily available labor have helped raise profitability in the industry. Its costs of production reportedly are the lowest in the world. The Brazilian sugar industry, because of its close association with the massive ethanol industry, also derives material benefit from government ethanol policy, which provides the sugar industry with indirect support.

Global supply and demand overview

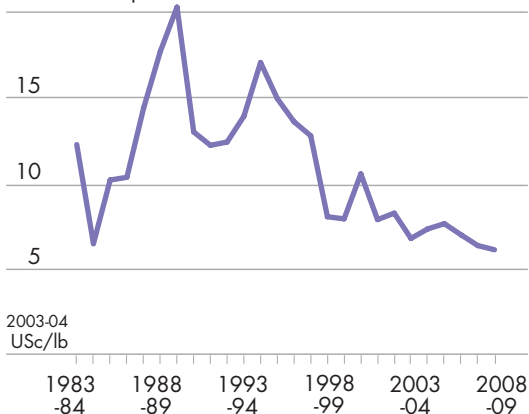
The world raw sugar indicator price is forecast to rise by over half a cent to average US7.5c/lb (New York no. 11 spot raw) for 2004-05 as growth in world consumption is expected to slightly exceed the expansion of supply.

World supply driven by Brazil

Global production is projected to rise by 1.5 per cent or 2.2 million tonnes to total 148 million tonnes in 2004-05. Brazil, the world's biggest exporter, is likely to continue to expand areas under cane, although at a slower pace than in recent years. Production is also likely to be higher

World sugar prices

NY no. 11 spot



• Richard Perry • +61 2 6272 2093 • rperry@abare.gov.au

The expected decline in the rate of industry expansion in Brazil reflects declining global prices, in Brazilian currency terms. The devaluation of the Brazilian currency in the 1990s helped to create economic conditions that raised the domestic sugar price and encouraged the rapid expansion of the industry. While the Brazilian currency has appreciated recently against the US dollar, it has not appreciated to the same extent as other countries' currencies have, especially the Australian dollar. So while world sugar prices denominated in Brazilian currency terms have fallen, the Brazilian sugar price has not fallen as far as Australia's domestic sugar price.

Brazilian closing stocks for the 2003-04 marketing year are estimated by the Sao Paulo Cane

Agroindustry Union (Unica) to almost triple in the major Centre-South cane growing region to 742 000 tonnes. Higher stocks increase total supply in the current season, placing downward pressure on prices. A number of factors are likely to have contributed to the stock buildup, including rising domestic production, logistical issues and slower exports caused by higher freight rates.

Despite cane production in Brazil being forecast to rise by 6-7 per cent, sugar production in Brazil is only expected to rise by roughly half this rate in 2004-05, because around half of cane production is used typically in the production of ethanol, which is heavily influenced by government policy. These policy settings stipulate automotive fuel blends that heavily influence the

Possible implications of Brazilian market dominance

In Brazil, further industry expansion and rising exports will continue to pressure world prices. In combination with a variety of demand side issues (like market access barriers to many markets), Brazil may begin to crowd out other countries' sugar industries. For the world's few minimally protected and supported sugar industries, their likely responses to protracted low world sugar prices will be of particular interest in coming years.

In theory, the most vulnerable industries include those within countries that do not offer producers protection from world prices and that have higher costs of production. Brazil is widely regarded as having the lowest costs of production among major sugar producing countries. Even though Brazil's sugar industry apparently does not need protection, it still

has a tariff on imports, even though it is relatively small (see table).

The continued rise in the dominance of Brazil in international sugar markets is expected to place additional pressure for structural adjustment on the Australian industry. The industry can expect continued low prices and will need to reform industry structures to lower costs. Structural adjustment may mean rationalisation of equipment (especially harvesters), cost reducing production techniques and the move to larger farms in some regions as higher cost producers leave the industry and land prices fall.

Structural adjustment is in the industry's long term interest. Such a change will make the industry more flexible, and will allow innovative growers and millers to improve efficiency and potentially expand.

Tariffs and quotas for key producing and exporting countries, 2002

	Producer rank	Net exporter rank	Applied tariffs (%) ^a	Import quotas
Brazil	1	1	18	none
India	2	5	100	none
European Union	3	4	295	85 463 tonnes ^b
China	4	net importer	66	1 945 000 tonnes
Thailand	5	2	65	13 760 tonnes
United States	6	net importer	183 ^c	1 117 195 tonnes
Australia	7	3	0	none

^a Most recently notified applied tariff. ^b Not including duty-free quota access exclusively provided to ACP countries. ^c *Ad valorem* equivalent calculated from a specific applied/bound (whichever is lower) tariff for raw sugar.

Sources: ISO, *Sugar Year Book*, 2002; WTO IDB and CTS databases; Thai Customs Department website (www.customs.go.th).

ethanol/sugar decision. Changes in the mandatory fuel blends will directly influence the quantity of sugar that Brazil is likely to export. The most recent change has been to increase the ethanol blend, which has resulted in lower sugar production and smaller stocks.

In Thailand, the world's second largest net exporter of sugar, production in 2004-05 is expected to fall, mostly because of negative weather effects that were not experienced in 2003-04. A new government program that provides higher cane prices to growers, but also includes a 65 million tonne cap on payments for cane production, is not expected to contribute to the forecast fall in production in 2004-05. Growers are likely to perceive an incentive to ensure that they manage their production so that they produce at least the cap, even in poor seasons. Production is expected to exceed the cap on payments.

Demand to rise with income growth

Global sugar consumption is projected to expand by about 2 per cent or by 2.9 million tonnes to total over 149 million tonnes in 2004-05, driven mainly by higher income growth globally.

World sugar markets are heavily influenced by the protective policies of the European Union,

the United States, Japan and Korea. With the world's largest sugar importer, the Russian Federation, dramatically increasing sugar protection in recent years, the price depressing effect may continue. Unless there is substantial reform of protection in these countries, there is little prospect of sustained higher prices for sugar.

Presently, there is little hope of achieving reductions in sugar protection through World Trade Organisation negotiations over the medium term outlook period. These prospects could be improved if the major protectionist nations either unilaterally reformed their support systems, or showed greater flexibility in the WTO processes.

Import demand in China may be on a long run trend upward. A 25 per cent reduction of import duties for sugar, in combination with drier than normal growing conditions for the Chinese industry and strengthening final demand for sugar in the food and beverage industries are forecast to contribute to a rise of sugar imports in 2004 and 2005. In calendar year 2004, China may import over a million tonnes of sugar. Looking further ahead, the lowering of tariffs is a positive step that may help to offset the increasingly protectionist policies of the Russian Federation and Indonesia.

In Indonesia, the second largest net importer of sugar, tariffs have been increased as part of a

Sugar outlook

	Unit	2001 -02	2002 -03	2003 -04 f	2004 -05 z	2005 -06 z	2006 -07 z	2007 -08 z	2008 -09 z
World a									
Production	Mt	138.2	148.9	145.6	147.8	150.4	153.2	155.9	158.7
Consumption	Mt	137.3	142.7	146.5	149.4	150.6	152.4	154.7	157.4
Stocks b	Mt	65.9	72.1	71.2	69.6	69.5	70.2	71.4	72.7
Price									
- nominal	USc/lb	7.6	8.1	6.8	7.5	8.0	7.5	7.0	6.9
- real c	USc/lb	7.9	8.3	6.8	7.3	7.6	7.0	6.4	6.1
Australia d									
Sugar production e	kt	4 987	5 461	5 023	5 247	5 247	5 352	5 459	5 568
Sugar exports	kt	3 594	4 219	3 907	4 120	4 258	4 396	4 533	4 218
Value of exports									
- nominal	A\$m	1 392	1 415	966	1 064	1 201	1 216	1 251	1 065
- real g	A\$m	1 468	1 447	966	1 038	1 143	1 129	1 134	941

a September–August years. b Historical estimates of closing stocks are based on individual country estimates of production, consumption, trade and stocks. Given possible under/over reporting of statistics in individual countries, changes in world closing stocks from year to year may not necessarily equal the difference in world production and world consumption. c In 2003-04 US dollars. d July–June years. e Raw tonnes actual. g In 2003-04 Australian dollars. f ABARE forecast. z ABARE projection.

Sources: Australian Bureau of Statistics; F.O. Licht; ABARE.

government objective of eliminating the need for imports by 2007. Since these policies were introduced, domestic production has actually fallen and imports have increased. However, it is likely that consumption and imports would have been even higher without the additional tariff.

Demand growth could have been even higher if not for the impact of rising protectionism, such as in the Russian Federation, the world's largest net importer of sugar. The recent increase in Russian tariffs has occurred despite the country currently seeking accession to the WTO.

Higher Russian tariffs, lower domestic stocks and possible higher imports

The Russian Federation is the largest importer of sugar, accounting for 10–15 per cent of world sugar imports (US Department of Agriculture 2003). In the 1998-99 marketing year Russia's imports reached a peak of 15.6 per cent of world trade and have since declined. The increase in Russian imports coincided with the recovery in the Russian economy.

After a protracted economic downturn in the early 1990s, the Russian Federation has experienced a sustained period of strong economic growth. The income growth that accompanied this period contributed to a rapid expansion in demand for manufactured food and drink products that contain sugar, causing final sugar demand to expand. The higher demand has led to an increase in sugar prices and consequently a rise in demand for imports.

Russian sugar beet production had fallen by over half by the mid-1990s. Subsequently, beet production has partially recovered but current production levels are still substantially below levels achieved in the early 1990s. Production has not fully recovered, despite recent government attempts to encourage additional production through raising tariffs and other measures designed to limit imports.

The Russian government increased tariffs from 23 per cent in 1995 to around 175 per cent in 2003. During this period they also used seasonal tariffs and a tariff quota arrangement. The seasonal tariffs were unsuccessful in their assumed goal of reducing overall sugar imports because processors/importers would import large amounts prior to the implementation of the seasonal tariff (see figure). Uncertainty about the future direction of government policy also contributed to stock building behavior.

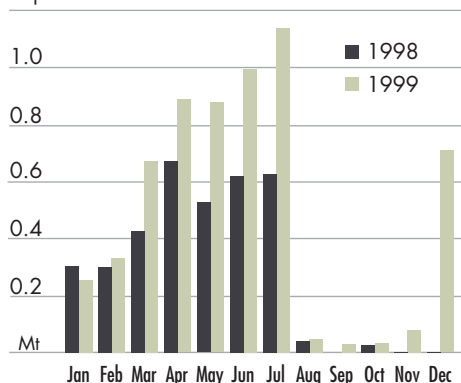
The increases in tariffs have the effect of substantially raised Russian internal sugar prices in the past three years. In response, sugar refiners have been reducing stocks — from 3.1 million tonnes, or just under 50 per cent of domestic consumption in 2001-02, to 1.4 million tonnes or 22 per cent at the start of 2003-04. Russian producers' running down of stocks

has reduced the level of imports required. At the rates that stocks have been falling it is likely that stockholdings will be very small in 2004-05. With only minimal domestic stock availability, Russian domestic supply will shift back in the short term, causing a rise in domestic prices, in turn resulting in expanded import demand.

The import demand and domestic supply response to Russia's recently announced modified tariff regime, implemented from January 2004, that varies with prices achieved on the New York sugar exchange, will be interesting to observe. To date, Russian producers have displayed only modest responsiveness to changes in domestic prices caused by tariff changes. Being mindful of only low levels of domestic stocks, the domestic industry's past behavior may indicate that as a result of the new tariff regime, domestic sugar prices will rise substantially in the Russian Federation, that domestic production will rise modestly, and that import demand will expand despite the new, higher tariff. Nevertheless, uncertainty can be expected over the level of Russian imports.

Russian raw sugar imports

Impact of seasonal tariffs



Normally, countries applying to join the WTO must agree not to increase protection levels during the accession process. Since applying to join the WTO, Russian sugar tariff has increased from 23 per cent to nearly 175 per cent.

European Common Agricultural Policy reform

The only sign of a possible reduction in support for sugar among major protectionist countries is in the European Union. The European Union is under pressure both from within and without to reform the Common Agricultural Policy (CAP) and its sugar program specifically. The 'Everything but Arms' program that will provide quota and duty free access to the European market for sugar (after lengthy phase-in periods) to all least developed nations places heavy pressure for the European domestic support price to be lowered. Consequently, the price received by ACP (African, Caribbean and Pacific) countries under preferential arrangements will also fall. Non-ACP developing countries, however, will still be left out as they are neither included in the 'least developed' nations list nor in the ACP list. Developing countries that will remain essentially locked out of the European market, despite reforms to the CAP and the entry into force of the Everything but Arms program come mainly from South America and Asia.

Additional budgetary pressure to reform the CAP is likely to come from the imminent expansion of the European Union, from 15 to 25 members. Already, the European Union has revised support measures for grains, meat and dairy products, despite the political difficulty in achieving revised support levels, particularly for dairy. It is also likely that the expansion of the union will also put pressure on the sugar support system.

Ethanol production in Australia

Recent declines in cane prices caused by low Australian sugar prices have triggered a search within the Australian cane industry for additional alternative uses for sugar that may help to raise the value of cane and products derived from it, ultimately to increase farm incomes. For some time, the production of cane based ethanol has

been put forward as the most attractive alternative to sugar production. To support the case for government support to improve the commercial viability of ethanol production, a number of additional claims relating to environment, health, fuel security and regional employment have also been cited.

A newly released report commissioned by the Australian Government, *Appropriateness of a 350 Million Litre Biofuels Target*, prepared jointly by the Commonwealth Scientific and Industrial Research Organisation, the Bureau of Transport and Regional Economics and ABARE, indicates that cane based ethanol production from B and A molasses involves high opportunity costs in terms of forgone revenue from lost sugar production and lower exports. Additionally, the final cost of ethanol produced from B and A molasses is estimated to exceed the comparative cost of petrol by 250–370 per cent. Consequently, the report states that without substantial and ongoing assistance, a fuel ethanol industry based on B and A molasses is not economically viable. Overall, according to the report, the estimated costs of a 350 million litre Australian biofuels target exceeds the estimated benefits.

Australian outlook

Productivity growth required to raise sugar production over the medium term

With no additional access to the US sugar market arising from the recently announced Australia–United States Free Trade Agreement, continued low world sugar prices and a strengthened Australian dollar, the Australian sugar industry will remain under considerable pressure for change. Australian production declined in 2003-04, in response to both adverse seasonal conditions and low returns. Without substantial reform of the domestic industry, it is likely that in the near future, some producers will leave the industry and production will decline. The closure of the Moreton mill in southern Queensland at the end of the last season is expected to result in a contraction in the Australian cane area in 2004-05. Cuts to inputs on some farms, particularly of fertilisers, will also place downward pressure on

production in the 2004-05 season. These negative effects may be offset by improved weather conditions so far, on the assumption that improved growing conditions continue; however, total sugar production in 2004-05 will remain below trend.

Looking beyond to 2008-09, production projections require major assumptions as the Australian sugar industry is currently at a turning point. In the absence of the removal or reform of regulations that impede industry innovation and restructure, the industries of several regions may soon begin to contract. If the necessary adjustments occurred, the Australian industry might be able to sustain growth. Research conducted by the Centre for International Economics for the Queensland Government, the Boston Consulting Group for the Queensland grower organisation, CANEGROWERS, and the Hildebrand Inquiry commissioned by the Australian Government broadly agree that given current industry arrangements, continued low prices will maintain strong pressure on the industry to find ways to improve efficiency and reduce costs.

For the purposes of ABARE's five year projections, it is assumed that distortions to world sugar markets will substantially remain, and that necessary adjustments will be made within the

Australian industry to preserve profitability. It is assumed that there will be no change in the total area under cane; however, productivity and yield improvements are expected to raise cane and sugar production.

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- Schmitz, T., Schmitz, A. and Seale, J. Jr 2003, 'Brazil's ethanol program: the case of hidden sugar subsidies', *International Sugar Journal*, vol. 105, no. 1254, pp. 254–65.
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Outlook 2004

Speakers papers

Speaker

Bob Granger

Chair

Sugar Industry guidance Group and
Sugar Research and Development Corporation

Title

Improving Industry Performance

Session

Sugar

1.45pm Tuesday 2 March

National Convention Centre, Canberra

IMPROVING INDUSTRY PERFORMANCE OUTLOOK 2004

1. Introduction

Thank you Greg Messiter. Ladies and Gentlemen, distinguished guests, it's a great honour to be here today and to provide you with my perspectives on *improving industry performance*.

You would know I am the Chair of the Sugar Research & Development Corporation and the Chair of the Sugar Industry Guidance Group (IGG) – part of the Australian Government's Sugar Industry Reform Program.

It's no secret that there have been delays in implementing regulatory reform in Queensland and various components of the Sugar Industry Reform Program have also been delayed, including the IGG. I understand there is progress in negotiations amongst parties in Queensland and as you're all aware, the Australian Government is considering an approach from Industry.

But I'm not here today to comment on those things. I ask you to listen to me today as Bob Granger - someone with a history in agri-politics, to provide my views on **“improving industry performance”**.

Slide 1: IMPROVING INDUSTRY PERFORMANCE

In my presentation I will cover:

- Current Industry Performance
- Key Drivers impacting on Future Performance
- Opportunities to Improve Performance
- SRDC Response to Realise Opportunities
- The Path Forward

2. Current Industry Performance

In terms of current industry performance I want to reference:

- Productivity and Price Trends
- Recent independent Assessments of What is Needed (Hildebrand; BCG; CIE)

Slide 2: CURRENT PRODUCTIVITY PERFORMANCE – Sugar Yield per Hectare

Current industry performance as yield per hectare has been **relatively flat**.

Slide 3: CURRENT PRODUCTIVITY PERFORMANCE - Sugar yield and Sugar Pool Price (1971-2002)

In contrast to relatively flat yield performance, sugar pool prices adjusted to 2002 dollars have dramatically decreased over the last three decades.

The fundamental issue for the industry is the increasing gap between productivity and revenue generated - given industry reliance on exports.

There are three reports, which remain benchmark reviews in terms of setting clear platforms by which industry performance can move forward.

SLIDE 4: ASSESSMENTS OF INDUSTRY PERFORMANCE

HILDEBRAND 2000

Need to move to a Regional Approach

- The industry must **build business management skills** in the regions
- 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

Boston Consulting Report 2003

- **Step-change** required in **Industry Productivity**
- Growing sector opportunities: \$250-500 / ha
- Grower-Miller interface opportunities \$500-900 / ha
- Organisational efficiency opportunities \$10-30 / ha

CIE Reports – Cleaning up the Act 2002; 2004

Without legislative reform

- Industry will shut down in all regions within five years

With reform

- All regions will be viable but with reduced profits
- Industry structure will change with same amount of cane and sugar being produced but with less cane land and fewer larger mills
- Need to **remove all barriers to competition** in the Act

All these reports make a series of ‘industry wide’ statements. Some claims cannot be applied ‘wholesale’ across the industry, and various industry groups contest others. But each report carries important and common strategic messages.

Industry must change to survive. It is a message that must be heeded.

SLIDE 5: KEY DRIVERS

3 Key Drivers Impacting on Future Performance

Check against Delivery

3.1 Technology

Australia has led the world in technological developments covering:

- harvesting
- bulk handling
- improved varieties
- on-farm practices
- transport and
- milling technology

Notwithstanding this impressive track record I do not believe that the Australian sugar industry's future viability can be secured through advances in technology alone.

Culture and capacity to change will be much more important in determining industry performance rather than technology.

But I will expand on this point later.

3.2 Cost Efficiency

Despite improvements in efficiencies of the individual sectors in the Australian industry, competitors have achieved gains in cost efficiency and overall revenues by more effectively integrating operations across the sugar value chain, and creating more value-adding opportunities.

Cost efficiency will be critical in determining the future shape of the industry and we must learn from our competitors.

In particular, there must be a move to an incentive based business approach focussed on sugar cane production and processing rather than one based on equity and averaging.

3.3 Terms of Trade

Over recent years there has been a sharp decline in the world sugar price with:

- Brazil dramatically increasing production
- The Australian dollar appreciating and
- World markets remaining distorted.

I applaud the efforts of industry and Government lobbying for change in international trade policy settings, but this is a long road.

3.4 *Land and water management*

Sugar cane production in Australia is largely based on a monoculture.

I mentioned earlier, the rate of productivity improvement in terms of sugar yield per hectare has barely increased over recent decades. (0.4% per annum).

This performance is well below that for other cropping industries, Australian wheat yields have increased over 3% per annum in recent decades, and cotton yields up to 5% per annum.

Recent research has shown that the poor rate of productivity increase is associated with soil degradation, soil compaction, decline in soil organic matter and the build up of pathogens.

Improving management practices on farm is critical to improving performance.

3.5 *Environmental and Community Expectations*

All agricultural industries must adopt a focus on economic, social and environmental outcomes.

This is particularly relevant for most of the Australian sugar industry, situated adjacent to the Great Barrier Reef Lagoon and World Heritage Rain Forests.

SLIDE 6: OPPORTUNITIES TO IMPROVE INDUSTRY PERFORMANCE

4. What are the opportunities to Improve Industry Performance?

4.1 *The on-farm imperative is to implement a robust and resilient farming system, incorporating the following features:*

- Controlled traffic, minimum tillage, retention of all crop residues, and a well-managed legume break crop

Check against Delivery

- Integrated pest management
- Variety management and planting decisions
- Timely management of nutrients, irrigation, weeds, etc

The emphasis has to be on Best Management Practice leading to productivity enhancement and potentially reduced environmental impacts, with a greater focus on business management.

Many studies have shown that there is high variability in productivity and profitability of different farms on the same soil type in the same region.

The key issue is management, this is a people issue – it's about human capacity.

SLIDE 7: Opportunities ctd

4.2 *The second key opportunity is achieving cost efficiencies through the adoption of a whole of system approach to industry operations across the value chain.*

The industry currently has four profit centres – growing, harvesting and transport, milling, and shipping and marketing – with each sector aiming to maximising their cut of the pie.

Optimising the whole system from growing to marketing can make gains but the key impediments are history, culture and capacity to change.

Progress requires leadership to address cane and harvest payment systems and business structures.

SLIDE 7: Opportunities ctd

4.3 *Over the past decade the momentum has grown considerably to promote other income streams away from industry's reliance on raw sugar sales.*

Proponents of this strategy argue that developing diversified revenue will promote greater income stability.

Diversification options include:

- Introduction of a mandated ethanol blend in petrol
- Co-generation
- On-farm diversification.

I want to refer briefly to ethanol because it comes up consistently as the great hope for the Australian cane industry. **Let me make a few observations.**

- Ethanol advocates expect ethanol policies and production will benefit domestic sugar producers.
- However, in order for the Australian sugar industry to become a primary supplier, in addition to a mandate or target for ethanol use, Governments would need to impose continued market protection from cheaper imports, otherwise the beneficiaries of mandated ethanol would be our friends in Brazil.
- In addition to import protection, **it's not clear yet that ethanol can be produced (in quantity) from sugar cane at a price that is competitive to wheat-based ethanol.**
- So in order to fully benefit from a significant increase in the use of ethanol in the fuel mix, the sugar industry would require protection not only from the Brazilian producers but also from competitor domestic producers.

Continued focus on such a dramatic set of policy measures for a product which has more questions than answers, I believe, provides **false hope** to industry stakeholders.

I'm not saying don't pursue ethanol, but we have to be honest with ourselves, the economies don't stack up and the environmental benefits, I believe, are yet to be proved.

Under current Government policy settings, diversification opportunities would seem mainly to be delivered through electricity co-generation with a developing interest in on-farm diversification opportunities, as evidenced by CSR's recent commitments in this area.

SLIDE 8: REALISING OPPORTUNITIES TO IMPROVE INDUSTRY PERFORMANCE

5. What do we have to do realise these opportunities?

I believe the biggest impediment to realise these opportunities is *capacity to change*

5.1 What has to change?

The industry needs to move to an Agri-business approach that aligns incentives to performance rather than to a “lowest common denominator” approach.

Industry’s human resource and business structures will also be different from the present through farm amalgamation, adoption of regional business priorities, and a likely reduced number of harvesters, growers and even mills.

This process needs bold leadership as industry participants move out of their current comfort zones.

SLIDE 9: SRDC RESPONSE – DELIVERY OF SIX KEY OUTCOMES

6. What is SRDC doing to ensure the industry is best placed to realise the opportunities identified

To underpin a profitable and internationally competitive Australian sugar industry, SRDC has determined that R&D investment should be targeted towards six key outcomes:

1. An increasing and **more reliable cane supply**, primarily through the implementation of robust farming systems that enhance economic and environmental performance;
2. Facilitation of change, which promotes **adoption of whole-of-system solutions** to enhance revenue and cost efficiency across the value chain.
3. **Demonstration of environmental sustainability** to the satisfaction of all stakeholders.
4. **Diversification of the income stream** from products derived from sugarcane.
5. Enhancement of **human capacity and partnerships** between industry, research & regional communities to underpin change, learning and innovation.
6. An **effective R&D capability** underpinning industry futures.

SLIDE 10: IMPROVING INDUSTRY PERFORMANCE – THE WAY FORWARD

7. MOVING AHEAD

There are around 7,000 business units in the Australian sugar industry sharing a GVP of sugar cane cut of less than \$1bn.

\$1bn per annum cannot sustain 7,000 businesses for an extended period. There may be spikes in the world sugar price. But they are spikes rather than a sustainable improvement in the outlook.

People in industry tell me: The pool price can't remain at \$220 per tonne and I tell them – you're right it can't. *It may even get lower.*

Improving industry performance is not about delivering a simple, or a one-size-fits-all, solution to industry problems.

There are many solutions – a multitude of small improvements – which collectively, will contribute to improved industry performance.

Economics tell us that **something must** be done.

Industry has two very clear choices.

1. **Keep doing what we're doing** and the market will impose change brutally; or
2. Accept the inevitability of change, be open and truthful to ourselves and our constituents and at the same time work collaboratively and constructively with Governments, and other sectors to set **realistic adjustment goals** for industry.

The second option **will hurt too**. There will be **winners and losers** and there can be no doubt, mills and farms will amalgamate, consolidate or close.

Industry can further improve its performance by establishing realistic goals and developing **realistic and appropriate expectations of government**.

The sugar industry **will** survive and develop in response to market and global pressures. **But it will be different**.

As Chair of the SRDC I meet many participants in many regions and I know there is an energy and enthusiasm to embrace change.

Many changes are already underway and the SRDC and other mechanisms can be a catalyst for further change. Much has been done but more is required.

Ladies and Gentlemen, distinguished guests, I thank you.