



# CANEGROWERS

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12 March 2003



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Mr E. J. Hall  
Chief Executive  
Queensland Competition Authority  
GPO Box 2257  
BRISBANE QLD 4001

Dear Mr Hall

## **Re: Final consultation on QCA BRIA draft report**

I am writing in response to your letter dated 25 February 2003 re the final consultation for the Burdekin assessment.

Firstly, I would like to note the extremely short time frame you have given CANEGROWERS and other parties to respond in this final consultation process. Given that it has taken 4 months to respond to our submission, I would have thought we would have more than 2 weeks to respond.

Secondly, I will try to limit my comments to your response to my submission from October 2002. I will leave it up to the relevant party who made the original submission to respond to you despite some of the concerns I have re your response.

In general, I am extremely disappointed at the responses that QCA has given CANEGROWERS on a number of the issues that we have raised. On many occasions, I believe that the QCA has made only a token attempt to address the issue raised and in reality have not adequately responded to my questions. Consequently, many of the concerns I initially raised remain and will remain until the QCA responds fully to them.

I do not find your response satisfactory on the issue of using the same WACC for irrigators as for Sunwater. You have provided no evidence to suggest that the WACC should be the same for both parties and I would find it extremely difficult to see how you could possibly muster a case to support this. Given the amount of time you have spent on this review and the amount of detail you have gone into with elements of the review, I find it difficult to see why you would not seek to resolve this obvious gap in your analysis. Given the importance of the WACC for irrigators and Sunwater in your assessment, this gap in my mind casts grave doubt on the outcome of your review.

Also, in my mind the QCA hasn't responded satisfactorily to the issue I raised regarding the difficulty in seeing how government can now claim that it would like to seek a commercial rate of return given that it has not done so since the inception of the scheme. My point related to the issue of using real discount rates in the analysis and the impact that this has on the

NPV of cash flows beyond a certain time period has not been addressed at all. You have noted that to respond to this question, you would need historical information on revenues and costs for the BRIA from the dams construction to October 2000. I would have thought that revenue information would have been readily available from NRM, Sunwater and irrigators. Although obtaining accurate information on costs may be difficult, I would have thought that the Green Edwell report would have provided sufficient information to allow costs to be estimated over this period. This may not be as rigorous and accurate as the QCA would like, but it would be as rigorous and accurate as the lower bound information used as the basis for this review.

The QCA has done little to convince me that the Commonwealth government intended to allow the state government to obtain profits from the Commonwealth contributions. QCA appears to have largely ignored evidence provided in support of industries case on this issue.

On the issue of mill levies, as I understand Bundaberg sugar obtained legal advice to support their claim. Consequently, the state government did not continue to seek the levies from Bundaberg sugar which would appear to indicate that the state government accepted the legal advice given to Bundaberg sugar.

I found the QCA's reponse to my questions re the sugar prices used to underpin the calculation of EV inadequate. Firstly, you provided no evidence as to why the spot price should be used to calculate EV.

I cannot understand what would motivate the QCA not to use the real \$A forecasts in the ABARE report in its analysis. The numbers are clearly laid out in table 1 of p334 in the Outlook 2000 papers. Given that QCA was seeking \$A forecasts of sugar price in real terms it is perplexing as to why the QCA did not just use the real \$A numbers in this table.

The method you claim that you used to calculate the real \$A price is obviously internally inconsistent. On the other hand, the ABARE forecasts are internally consistent. That is, the nominal \$US prices, exchange rates and inflation rates are consistent throughout all its forecasts. Only the ABARE exchange rates and inflation rates can validly be used in conjunction with the nominal \$US forecasts.

Also, I find it amazingly coincidental that the method I suggested was used to calculate the prices matched up with the ABARE prices quoted in every year. I do not believe the QCA response to my submission suggesting that this approach was not used.

In the 10 year forecast given by ABARE, I did not suggest that a \$341/t price should be used for the entire period of the QCA analysis but rather for the five years from 2000-01 to 2004-05.

The QCA suggestion that productivity increases will keep pace with falls in real prices has not occurred in the last 30 years, and I find it difficult to see how this could occur over the next 30 years.

With regards to the comparison between ABARE and WRU forecasts, the ABARE forecasts were released in February 2000 while the WRU forecasts effectively released in October 2000. As we would expect, this caused the WRU forecasts to be lower than the ABARE ones especially early in the 5 year period since prices fell between February and October 2000. In hindsight, both forecasters were extremely optimistic and wrong especially towards the end of the price forecast and this has been to the detriment of the Burdekin CANEGROWERS/Irrigators. A more realistic set of forecasts as at October 2000 with prices returning to around \$300/t would change the outcome of the review substantially.

As a person who spent 5 years working for ABARE including writing or managing several of the Outlook sugar papers including the ABARE Outlook sugar papers in 1998 and 1999, I find the QCA analysis in this area to be extremely questionable. If the QCA and the consultants it has commissioned in this area do not have the required skills to undertake this analysis, I would suggest commissioning someone such as ABARE to undertake this element of the review.

The QCA makes it clear that based on current prices, the return on capital charged is excessive and growers do not have the capacity to pay gazetted prices. Given this, I would question why this has been largely ignored as a major outcome of this review.

I would have thought that if a 5 year price path was set and was found to be unacceptable and too high during the 5 year term that government would review and adjust prices mid term. That is, if there wasn't a capacity to pay by irrigators in the middle of a 5 year price period, this would be a case to review prices and not charge a rate of return. If this did not occur, you would run the risk of people being unable to pay water bills and thus leading to a reduced viability of the scheme. In my mind, this is not outside the realms of the QCA review but rather a valid case in which the rate of return charged was excessive.

I note with interest the latest ABARE sugar forecasts released last week. This suggests that real sugar prices will fall from the current low levels over the next 5 years. They have forecast a real price of US6.3c/lb in 2007-08 which equates to around A\$200-210/t. This highlights how inappropriate the price forecasts used in this analysis are.

I look forward to discussing these concerns with you in the near future. I trust that my concerns will be addressed in the final report.

Yours faithfully



Eric\_Danzi  
SENIOR MANAGER WATER