

REPORT TO SRDC

FINAL REPORT

PROJECT HGP001

**ESTABLISHING A MILLION TONNE
HARVESTING
CO-OPERATIVE**

**Richmond River Cane Growers'
Association Limited**



Australian Government

Sugar Research and Development Corporation

SRDC Grower Group Project Final Report

SRDC project number: HGP001

Project title: Establishing a million tonne harvesting co-operative

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Due date for report: 1/08/06

Funding Statement: This project was conducted by Richmond River Cane Growers' Association Ltd in association with the Sugar Research and Development Corporation (SRDC). SRDC invests funds for sugar R&D derived from the sugar industry and the Australian Government.



Australian Government
Sugar Research and
Development Corporation

The Richmond River Cane Growers' Association Ltd is not a partner, joint venturer, employee or agent of SRDC and has no authority to legally bind SRDC, in any publication of substantive details or results of this Project.

Body of Report

Executive Summary:

The (An overview of the aim, conduct, key results and learnings from the project. Maximum 500 words)

The aim of the project was to form a million tonne harvesting co-operative in the Broadwater Sugar Mill area involving the amalgamation by way of merger of 7 registered harvesting groups with the option for 2 current harvesting contractors to become part of the proposed one river co-op.

It was anticipated that the average price of harvesting would reduce across the river by approximately \$1 per tonne of cane. While the NSW industry boasts harvesting prices among the lowest in Australia it was believed that the industry needed to take that further step.

The formation of the co-op would not only enable growers to reduce their major input costs with harvesting representing around 25% thereof but would also provide the following benefits:

- Ability to take advantage of benefits available by integrating the harvest/transport of sugarcane
- Negotiation of bulk purchasing rates
- Ability to control more of the supply chain in the future in areas such as fuel, machinery maintenance and repair
- Ability to handle human relation issues in a far more structured way than at present in areas such as Workplace Health and Safety

A meeting of Directors and Managers of all harvesting groups supplying Broadwater Sugar Mill was held on 28 August 2006 to enable a communication and engagement process to be developed that would enable all parties to make an informed decision regarding the proposed merger of harvesting groups. This meeting was facilitated by Jill Rigney of RCS consultants and was also attended by NSW Sugar Milling Co-operative Ltd management and staff.

As part of the meeting process the options and evaluation determined as part of the SRDC funded project *Achieving World's Best Practice Harvesting and Transport Costs for the NSW Sugar Industry (Project NSC006)* were presented by the project team. The options presented were not considered as the only possible solutions to harvest rationalisation and preparation for whole of crop harvesting but as a starting point for discussion in this regard. Options presented ranged from the formation of a one river harvesting co-operative down to specific target groups such as those operating in the "down" river and "up" river areas. These options are fully detailed later in this report and have been presented to SRDC in *Milestone 6 Report* for *Project NCS006*.

The overwhelming outcome of the meeting was that in general members of each group were individually and as a group in support of harvesting rationalisation. It was also agreed that a Working Group should be formed made up of all group Chairman (or the Managing Partner in terms of contractors). It was also unanimously agreed that the Chairman of the Working Group should be seen as independent of grower and milling interests whilst still having an excellent knowledge of harvesting and transport issues and an enthusiasm for the continued prosperity of the sugar industry. In this regard Mr Ian Allen, retired Chief Cane Inspector of Broadwater Mill, accepted the offer to be the Chairman of the Working Group.

The Working Group also includes technical support from the Cane Growers' Association, mill management and other specialist areas such as accountancy as and when required. Formal agendas are developed for each meeting of the Working Group to enable members to keep focused on outcomes. The first meeting of the Working Group was held on Wednesday 4th October 2006 and

several meetings have been held since with significant progress made towards the aim of rationalising the harvesting sector on the Richmond.

While it can be said that the aim of the project has not been fully accomplished much has been achieved in terms of understanding and learning of individual group issues and how they can be resolved via the formation of a one river co-operative. This project has enabled the industry to prepare itself via the development of a range of tools and frameworks necessary to progress the amalgamations of harvesting groups across the Broadwater Sugar Mill area.

Background:

(Why did you need to do this project?)

At present there are 10 separate harvesting businesses operating in the Broadwater canegrowing area which comprises some 16,000 hectares of cane land. The 10 harvesting businesses are made up of 7 registered harvesting co-operatives and 3 contractors. Each of these businesses operates independently and services between 24 and 63 growers.

Over many years negotiations among the existing co-operatives have aimed to amalgamate the businesses to form one or two harvesting co-operatives which would service the entire mill area. This aim has never been achieved and it was felt necessary that a structured industry approach to problem need to be implemented and hence the project application to SRDC. There are significant cost savings and efficiency gains with a one river amalgamation and this project aimed to improve the long term sustainability of the cane harvesting business by increasing turnover and profitability by increased machine throughput where possible.

The NSW Sugar Industry's Regional Plan also states that harvesting prices in NSW are among the lowest in the Australian Sugar Industry given economies already achieved. The NSW industry wished to take the next step not only to address the cost of harvesting but to place the industry in apposition to take advantage of all benefits available by integrating the harvesting/transport of sugarcane.

Aims:

(Include the Aim and the expected benefits that were listed in Section 2 of your original Application)

The project sought to achieve the formation of a million tonne harvesting co-operative to enable growers supplying the Broadwater Sugar Mill to reduce harvesting costs by approximately \$1 per tonne and deliver an industry wide saving of over \$1 million.

(1) Economic Benefits

Although the current sugarcane harvesting prices in New South Wales are among the lowest in the industry given economies of scale already achieved, the industry believed it needed to take the next step not only to address the cost of harvesting but to place the industry in a position to be able to take advantage of benefits available throughout the supply chain by integrating the harvest/transport of sugarcane.

It was intended that one large co-operative would allow cane harvesters to work together in set schedules to enable greater co-ordination of harvesting in the area. The formation of one large co-operative would allow negotiation of bulk purchasing rates and enhanced control of more of the supply chain.

(2) Environmental Benefits

With a co-operative of this size and appropriate management structure in place environmental and human relation issues can be handled in a far more structured way.

(3) Social Benefits

With the formation of a one river co-operative human resource management both in the field and in the administration side will be streamlined and brought up to best practice standard. This would replace the need for small groups to individually put in place business plans and associated management arrangements thereby freeing up growers who currently act as directors, managers and or partners of the 7 harvesting co-operatives and 2 contracting arrangements that operate in the Broadwater Sugar Mill area

Methodology:

(How was the project conducted?)

A meeting of the Directors and Managers of all harvesting groups facilitated by Jill Rigney of Resource Consulting Services Pty Ltd was to occur in November 2005 last year to enable a communication and engagement process to be developed that would enable all parties to make an informed decision regarding the proposed merger of harvesting groups. Because of the extended season which lasted nearly 29 weeks it was agreed by all parties to re-schedule this meeting until August 2006 given availability of all parties.

This meeting was held on 28 August 2006 with representatives of all harvesting groups supplying product to Broadwater Sugar Mill. A range of harvesting rationalisation options was presented by CSIRO personnel as detailed in the Milestone 6 Report to SRDC for Project NSC006 *Achieving World's Best Practice Harvesting and Transport Costs for the NSW Sugar Industry*. In summary the options and proposed benefits presented were as follows:

OPTION	Benefit as Against "do nothing" scenario
Full Amalgamation dropping 2 machines	Saving of \$0.24 per tonne = \$245,690
Formation of 2 Large Groups dropping 1 machine	Saving of \$0.21 per tonne = \$214,394
Formation of 3 Groups dropping 1 machine	Saving of \$0.18 per tonne = \$187,471

While the focus of the project was on developing and implementing a proposal for the formation of a single co-operative the information presented evidenced that there were still savings to be realised by the industry if smaller group amalgamations took place. This was of interest to delegates in attendance at the meeting due to the fact that some concerns were expressed about the logistical problems in achieving a one river co-operative. It was generally felt at that meeting that it may be better to pursue an amalgamation process which would form 2 groups with one to operate in the "down" river area and the other to operate in the "up river" area of the mill.

While the information presented by CSIRO confirmed that there were major savings to be gained by rationalising harvesting groups it was somewhat surprising to note that the projected savings were well below those calculated by Richmond River Cane Growers' Association Ltd and verified by local harvesting group representatives. The reason identified for the variances was purely and simply the inability of the model to account for many intangible savings such as follows:

- Labour Savings from ability to share labour across crews
- Off-season labour requirement involved in repair and maintenance schedules reduced
- Savings obtained from managing inefficiencies
- Repairs and Maintenance savings – reduced requirement for stock ie machine tracks
- Bulk Buying opportunities
- Risk – greater ability to accommodate wet weather risks

Taxation advice was sought and subsequently provided which confirmed that there were no down sides with the proposed amalgamation (technically termed a merger under the Co-ops Act) with any merged entity able to take advantage of existing tax benefits such as carried forward tax losses. This advice was provided by accountants Marriott Foreman with the cost involved in gaining this advice together with the cost of attendance at relevant industry meetings on the formation of the proposed co-operative and development of a draft business plan being met by the harvesting co-operatives directly with the accounting firm.

The Working Group was subsequently renamed the Harvesting Rationalisation Working Group (HRWG) and it was quickly realised that the overwhelming majority of harvesting groups and their Directors did not believe that a one river co-op was appropriate and that the only way to progress the proposal was to form 2 separate co-ops being an "Up River" and "Down River" co-operative (an amalgamation of 4 co-ops operating 5 machines) and it was believed by the majority of those involved that this merger would occur as the gains to members were perceived as significant. The financial analysis undertaken for both the "Up River" and "Down River" co-ops are attached in excel spreadsheets. The figures which were validated by harvesting group representatives indicated the following:

- For the Down River proposal a cost per tonne saving averaged across all groups involved of \$0.81 was achievable while one group could achieve up to \$1.18 per tonne saving on its then current harvesting price.
- For the Up River proposal a cost per tonne saving averaged across all groups involved of \$0.51 was achievable while one group could achieve up to \$0.68 per tonne saving on its then current harvesting price.

While the financial information collated for the costing exercise and subsequent validation was in some respects not all current year costings the relativity to the % savings via amalgamation if it was to happen this year or in a subsequent year will remain constant. It can therefore be said with some confidence that there are savings of between \$0.50 to \$1.00 per tonne to be gained by the local industry if amalgamation of harvesting groups either as a one river or two river scenario occurred.

Minutes of each meeting were kept and circulated to each harvesting group representative prior to each meeting with formal agendas prepared for each meeting. A copy of the minutes of the first meeting of the group held on 4 October 2006 are attached for general information.

Results and Outputs:

(What results were produced by the Project? The results should include data collected, articles or reports written, events held and anything else you see as relevant to the industry. Relevant files including photographs should be provided on a CD. If there is any protected Project Technology, eg information that has been kept confidential, such as equipment specifications, patentable knowledge please outline and discuss this with SRDC)

During the course of the project the following outputs and results were produced:

- Preparation of taxation advice which confirmed that an amalgamation by way of merger of harvesting co-operatives had no down sides with any merged entity able to take advantage of tax benefits existing for any individual harvesting co-operatives such as carried forward tax losses.
- Formation of a Working Group for Harvester Rationalisation including representation of all harvesting groups operating on the Richmond River.
- Data collection of individual harvesting group financial costings and validation of a range costs associated with amalgamation of groups on the basis of 2 amalgamated being formed. Information is attached as Excel files (1. Amalgamation - DOWN RIVER Real Figures.xls and 2. Amalgamation - UP RIVER Real Figures.xls)

- Preparation of a disclosure statement for the proposed amalgamation of 2 individual harvesting groups which will be used as the “blueprint” for any merger resulting from the process of this project. This is attached as a Word file for information (Disclosure Statement OC & BTN Version 5.doc).
- Preparation of rules for the proposed amalgamation of 2 individual harvesting groups which will be used as the “blueprint” for any merger resulting from the process of this project. This is attached as a RTF for information (Rules Co-op - Merger BTN OC Version 3.rtf).
- Development of a draft business plan for the proposed merger of groups in both the “Up River” and “Down River” districts of the Broadwater Sugar Mill area.
- Collaboration with other organisations in progressing NSC006

The following comments about the progress and difficulties associated with the project also need to be made:

1. Retention of identity seems to be worth more to growers than price as substantial financial gains did not appear to be the most significant factor in the decision made not to proceed with the merger at this point in time.
2. Without industry representatives being the “champions” and flying the flag rationalisation may only come quickly when forced by outside influences.
3. Some growers appear to hold issue relating to harvesting rotation and paddock job by their harvesting co-op in higher regard than harvesting price - even if there is no reason to assume that there will be any difference in rotation or ground job when merged.
4. The 75% approval rule for merger of co-operatives can be considered as an impediment to change given that even if a majority agree to the merger it can still be defeated.
5. Is the co-operative structure given the 75% approval rule the correct structure for amalgamation or merger of harvesting groups?

Capacity Building:

(How has the Group's capacity to conduct R&D and implement better farming systems been enhance?)

It has not been previously possible to get all parties involved in harvesting operations in the Broadwater Sugar Mill area together to focus on a specific problem. This project enabled all parties to share their specific concerns and ideas about the future path that harvesting operations should take and to freely share financial information specific to their group.

While the project may not have concluded with the desired outcome of a one river co-operative it allowed individuals (and not only those on the Working Group) to develop a process and associated tools required for further harvesting rationalisation.

It is believed that the project also focused the group on overcoming many problems associated with the introduction of whole of crop harvesting which is to commence from the start of the 2007 season in the Broadwater Mill area.

Outcomes:

(What benefits have been achieved or are expected from the project, and what more has to happen to get the full benefit from the project? How do the expected benefits compare with those predicted at the start of the project, as outlined in the Application?)

The outcomes have been detailed previously in this report. While the project has not arrived at its proposed conclusion with the amalgamation of Harvesting groups operating on the Richmond into 1 or 2 harvesting co-operatives it has greatly assisted in developing a more “co-operative” approach to addressing problems in the harvesting sector. This has been evident in the way in which groups have shared information and problem solved in terms of the introduction of whole of crop harvesting this coming season.

It is believed that the tools have been developed that will enable the formation of 1 or 2 harvesting groups under whatever format is decided upon at the time.

Environmental Impact:

(Outline any adverse or beneficial environmental impacts of conducting the Project and/or implementing its findings)

NIL

Communication and Adoption of Outputs:

(Outline any communication activities that have been conducted and any that are planned. How has SRDC been acknowledged or involved? Have any lessons from the project been applied by members of the Group, or others?)

SRDC has been acknowledged in the Annual Report of the Richmond River Cane Growers' Association Ltd and in newsletter previously sent to members of the Association. The project has also focused individual grower members' attention on the problem of reaching the project's desired outcome and hence reducing the cost of harvesting.

Recommendations:

(What recommendations would you make as a result of the project, including suggestions for further research and development?)

As SRDC was advised the original timeframe for completion of the project was thrown into turmoil given localised issues involving a specific merger proposal that developed during the course of the project. The project had been progressed to where the framework and tools are now available for immediate approval when the decision is made to merge some or all of the harvesting groups operating in the Broadwater Sugar Mill area:

It can also be said that the project provided a focal point to enable groups to resolve many harvesting issues via bi-partisan action which in the past has been difficult to achieve.

The funding assistance provided by SRDC for projects such as this where much of the benefit cannot immediately be determined or will not be redeemed within a known timeframe should still be encouraged given that should the desired result be achieved the benefits are recognised as significant.

Publications:

(List and attach copies (electronically if possible) of all articles, newsletters and other publications from the project.)

Attached as per Results and Outputs above and as attached.