



Sugar Australia Pty Ltd

Submission to the Standing Committee on State Development Inquiry into Port Infrastructure in New South Wales

Summary

The NSW Premier's Port Growth Plan announcement on 5 October 2003, proposing the closure of the Port of Sydney to shipping freight operations, creates a major concern for Sugar Australia Pty Limited ("Sugar Australia").

Sugar Australia uses fourteen of the thirty silos at the Glebe Island Terminal to receive refined sugar from a purpose built, food grade bulk carrier. The use of these silos is integral to the continued supply of refined sugar to the Sydney and NSW market.

The closure of the Port of Sydney to shipping freight operations would result in the destruction of significant investment undertaken by Sugar Australia in the refurbishment of the Glebe Island Terminal silos and infrastructure and in the construction of the purpose built bulk carrier. This is an integrated system, each element of which was expected to have a very long-term life in order to justify its investment.

There is no clear alternative for the transport of refined sugar from North Queensland to the NSW market without significant additional investment in alternative storage and infrastructure, other than to have the product shipped by road transport. This would result in approximately 20,000 return truck movements (with adverse community and environmental consequences) and the write-off, by Sugar Australia, of its significant investment.

The subject silos have been identified as a heritage item of State significance. Their heritage value would be compromised if they were to become unavailable for their intended use, and their upkeep would be costly.

Background

Sugar Australia is an unincorporated joint venture between CSR Limited, ("CSR"), Mackay Sugar Co-Operative Association Limited ("Mackay") and ED & F Man Australia Pty Limited ("Man").

In August 1993 the joint venturers entered into a 10-year lease with the NSW Treasury, now Sydney Ports Corporation ("Sydney Ports"), for 14 of the 30 disused grain silos at Glebe Island Terminal.

Sugar Australia's Operation at the Glebe Island Terminal

Sugar Australia transports refined bulk sugar from Mackay to the Sydney Glebe Island bulk storage facility by a purpose built ship capable of transporting bulk food grade product. Sugar Australia currently has an annual throughput of approximately 200,000 tonnes of bulk-refined sugar through the Glebe Island Terminal.

For over a century white sugar had been traded internationally in conventional cargo vessels using sugar bags. In 1986, the Bulk In – Bulk Out/Bags Out technology was introduced, which permitted the loading and unloading of refined sugar either in bulk, or by the bagging-off of the refined sugar from a vessel's own bagging plant.

Sugar Australia's bulk carrier, *MV Pioneer*, was purpose built, to meet the strict handling and transport requirements for transportation of a food grade product, in 1996 at a cost of \$83m. *MV Pioneer* is used solely for the conveyance of refined sugar. It is subject to a 15-year lease, but its economic and technical life is much longer than that. The vessel has annual fixed operating costs in excess of \$14 million.

To facilitate the storage, handling and movement of the bulk refined sugar from the bulk carrier Sugar Australia refurbished the former disused grain silos, and constructed additional sugar handling, liquid sugar production and packing infrastructure, at a cost in excess of \$28 million. Most of this sunk investment is site-specific, with little or no prospect of recovery of value or re-use potential.

Sugar Australia employs approximately 30 people at the Glebe Island bulk storage facility.

Sugar Australia currently pays rent of \$655k p.a. to Sydney Ports plus wharfage charges of approximately \$400k p.a. - total annual revenue of \$1,055k to the State Government. Sugar Australia also pays other statutory charges such as land tax for the Glebe Island Terminal facility.

Other Users of the Glebe Island Silos

Australian Cement Holdings Limited ("Australian Cement"), which is a joint venture between CSR Limited and Pioneer Construction Materials Pty Ltd, occupied the other 16 silos at Glebe Island at approximately the same time as Sugar Australia. Australian Cement was granted a new 23-year lease of 16 silos in 1998.

We understand that Australian Cement has invested many millions of dollars to refurbish and upgrade the former grain silos to make them suitable for the storage and handling of bulk cement.

We understand that Australian Cement currently has a throughput of bulk cement through the Port of Sydney of approximately 400,000 to 500,000 tonnes per annum. The annual revenue (rent and wharfage charges) generated by Sydney Ports from Australian Cement would be approximately \$2 million.

The silos also generates income for Sydney Ports from rental of the Olympic Murals on the walls of the silos, the signage on the roof of the silos and from the installation of satellite dishes on the roof of the silos.

Heritage Issues

The Glebe Island grain silos have been identified as a heritage item of State significance. The silos were excluded from the maximum building height restriction under the Glebe Island and White Bay Master Plan because of their unique form and historical association with the port.

We understand that being identified as a heritage item of State significance will drastically reduce the potential re-use of the silos other than for the storage of bulk products delivered by ship.

Although other silos in Australia have been converted for residential development, we believe that making openings in the external walls to introduce light and air into a residential development would destroy the heritage significance of the silos. Indeed, the heritage value of industrial premises flows mainly from their continuing use for the purpose for which they were intended - in this case as storage silos.

If the Government is committed to preserving the silos as a heritage item, a large area of land surrounding the silos will need to be dedicated to uses that will not detract from the silos' visual impact on the horizon, i.e. parkland or very low level development. But the best preservation is continuing utilisation as silos.

Sugar Australia's Tenure at Glebe Island Terminal

Prior to entering into the current lease Sugar Australia sought a longer term of lease due to the proposed capital expenditure required for the associated infrastructure and to modify the silos to the food grade standard required to store bulk refined sugar. Sugar Australia understands that at that time, the Government was precluded from negotiating a longer-term lease due to technical problems.

Sugar Australia made representation to Sydney Ports in May 1995 to extend the lease for a term of 20 to 25 years. Sydney Ports advised that that they were "*supportive of your business development proposals*" and that the request would be noted for consideration in relation to the proposed Master Plan and would be reviewed then. Over the years there have been a number of approaches to Sydney Ports to extend the lease of the silos.

Due to the level of investment at Glebe Island Terminal, and the prior extensive discussions on long-term tenure of this site, Sugar Australia could have reasonably expected that Sydney Ports, with Government approval, would have automatically renewed the lease at the same terms and conditions as the current lease at the lease expiry, which is apparently now not the case.

Sydney Ports and Sugar Australia are currently negotiating the renewal of the lease of the Glebe Island silos for a longer term. Sydney Ports has an obligation in the current lease to offer a "first right of refusal" to Sugar Australia before going to the market for alternate users of the silos.

Reasons for the Continued Use by Sugar Australia of the Glebe Island Terminal Facility

Sugar Australia's use of the Glebe Island Terminal facility provides the following financial benefits to Sydney Ports and the NSW economy:

- Sugar Australia supplies approximately 70% of the Sydney bulk refined sugar market.
- Sugar Australia is the only supplier of bulk-refined sugar, by ship, to the Sydney market.
- Sugar Australia made a major investment in the Glebe Island Terminal facility at a time when the facilities had not been used for many years, after the NSW Grain Corporation ceased operations at the facility.
- Sugar Australia has invested \$112 million in the shipping of bulk-refined sugar from Mackay to Sydney.
- Sugar Australia has made a significant commitment to shipping in Australia and in particular the Port of Sydney with its long-term lease of the *MV Pioneer*
- Sugar Australia currently has an annual throughput of bulk-refined sugar of approximately 200,000 tonnes through the Port of Sydney. This equates to wharfage charges of approximately \$400k p.a.
- Sugar Australia is currently paying rent of \$655k p.a. to Sydney Ports. Together with wharfage charges and other statutory charges, this is annual revenue in excess of \$1,100k to the State Government.
- Sugar Australia employs approximately 30 people in the shipping, storage and management of bulk sugar at Glebe Island.
- The movement by ship of bulk-refined sugar avoids approximately 20,000 return truck movements on the roads from Mackay to Sydney, with significant community and environmental benefits.
- Sugar Australia has been a stable long-term tenant of Sydney Ports and provides Sydney Ports with a good lease covenant.

Conclusions

The State Government has already placed enormous pressures on the financial viability of Sugar Australia's business by denying them a long-term lease at the lease commencement and over the current lease term.

If the Glebe Island silos cannot be used for the receipt and storage of bulk sugar because the Port of Sydney has been closed to commercial shipping, Sugar Australia's considerable sunk investment, made in good faith and with a very reasonable expectation of site availability over the very long term, will have been destroyed.

If the Glebe Island silos cannot be used for the storage of bulk products because the Port of Sydney has been closed to commercial shipping and due to the heritage significance of the silos, the Government will have limited alternate uses of the existing silos and a large proportion of the surrounding land. The preservation of the silos as a significant heritage item will require the Government to make a major financial commitment for future preservation and maintenance of the Glebe Island silos.

Closure of the Port of Sydney to commercial shipping, in particular bulk products to the silos at Glebe Island, will result in a significant reduction in State revenue, loss of jobs, increase truck movements on the roads, increased costs to maintain the roads due to the increase truck movements and increased costs for the preservation and maintenance of the silos as a heritage item.

Sugar Australia Pty Ltd
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