

CHAPTER 9

C.S.R.'s Unusual Functions in the Australian Sugar Industry

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Most of us, naturally enough, understand best the things with which we are personally familiar and we tend to interpret remote things through some aspect which has tangible significance for us from our own experience. Thus most of us know of the sugar industry and think of C.S.R. mainly through the refined sugar that is on our tables every day. Many are not aware of what lies behind the refining operations and find it difficult to appreciate, in correct perspective, the other functions of the company and its position in the industry as a whole, especially as some of these are beyond the normal responsibilities of industry and commerce.

This chapter has therefore been written to give the more interested inquirer an account of the origins and nature of the Colonial Sugar Refining Company's present complex marketing and refining functions. It also refers to the various organizations which operate in the Australian sugar industry and examines the situation in respect of monopoly in the industry.

Although the situation described here is a complicated one, many people know of some part of it and practically all Australians know of the company. Therefore it is interesting to find what opinion of C.S.R. is held by the public; some results of public opinion polls taken since 1942 are given in the concluding part of the chapter.

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THE factual position in regard to the extent of C.S.R. operations in the Australian sugar industry, stated in summary, is that the company now grows no cane for commercial profit, but helps the farmers with advisory services, agricultural research and cane breeding; it has a large general technical research department working on mill and refinery production problems; it holds a high position in the field of sugar technology; it owns seven of the thirty-four Australian mills and makes about one-fifth of the raw sugar; it refines most of the sugar Australians consume, owning five out of the six Australian sugar refineries; and it administers, operates and finances the marketing pool for Australian raw sugar, under contract to the Queensland Government. These functions are clear-cut except for refining, marketing and financing, and it is to the latter, as they bear upon the company's relation to the industry in general and to government, that most attention is devoted in this chapter.

It must be remembered, too, that C.S.R. has big interests in sugar outside the Australian industry, in Fiji and New Zealand; and also has big interests in Australia altogether outside sugar, these being described in a later chapter.

Government Intervention during World War I

To understand the situation which controls the price of refined sugar to consumers and gives the Australian sugar industry an apparently powerful monopoly over the Australian internal market, reference must be made to its origins during World War I. Australia was not then self-sufficient in sugar and, until 1915, movements in the price of refined in Australia were dictated by the world market, with C.S.R. as the interpreter. There was an import duty of £6 per ton, on both raw and refined cane sugar; the company paid to Australian mills the world price, including freight to Australia, plus the £6, which therefore went in full to benefit millers and growers. As refiners, C.S.R. operated, in practice, without protection on a free trade basis. The mills purchased cane from the farmers at mutually arranged prices.

In 1915, because of the wartime inflation of the world market price, the Commonwealth Government, in agreement with the Queensland Government, imposed a prohibition on imports and exports, and took responsibility for purchasing from abroad sufficient supplies to make up internal consumption requirements. It also fixed the price to be paid to Australian mills for raw sugar. The Queensland Government passed its Sugar Acquisition Act to acquire all raw sugar as made by the Queensland mills, in order to hand it over to the Commonwealth.

The objectives were to protect Australian consumers, to prevent the export to high-priced overseas markets of sugar required in Australia and to afford protection to the raw sugar industry against the operations of Food Prices Boards.

For the remainder of the war and in the immediate postwar years, C.S.R. did practically all the work to carry out on behalf of the Commonwealth Government the payment to the mills for raw sugar and the feeding of Australia with sugar refined here from Australian and imported raws. In this period began the system which was adapted and continued in order to protect and assist the Australian *raw* sugar industry.

In 1915, the year when the Commonwealth Government fixed the price to be paid to Australian mills for raw sugar, the Queensland Government, in addition to passing the Acquisition Act, legislated to set up the Central Sugar Cane Prices Board to arbitrate between growers and millers on cane prices and allied matters. Years later, as over-production became a grave issue, great power (which was subsequently increased) was given to the Central Sugar Cane Prices Board to control the extent of cane acreage and its allocation to individual farmers, by refining and strengthening the licensing system known as "assignment", and to determine what raw sugar quotas, called "peaks", mills should be allowed to manufacture. Nowadays, in addition to the acreage, the quantity of cane or sugar per farm is controlled, so as to relate it to the mill peaks.

The Commonwealth Transfers Control to Queensland

In 1923 the Commonwealth Government handed over to the Queensland Government the machinery of control subject to certain undertakings. The position then created has changed little in principle or method. Broadly, the Commonwealth agrees to maintain an embargo on sugar imports, thereby reserving the whole internal market for Australian raw sugar, provided that the Queensland Government, acting on behalf of the *raw* sugar industry, sells *refined* sugar to the Australian public at prices agreed between the two Governments to be fair. The agreements between the Governments are generally for a five-year period and they have hardly altered in structure or purpose.

The purpose of these government actions was to protect, and to assist the development of, the raw sugar industry—in the permanent interests of the Australian nation.

The industry has come under full and detailed examination by special Inquiry Committees appointed at intervals by the Common-

wealth, in order to make sure that, having granted to the raw sugar industry sole rights to supply the Australian domestic market, the industry is developing the North, is free of "feather-bedding" inside the industry, is maintaining high standards of efficiency, and is making a reasonable profit.

The Company's Position in the Marketing Pool

A number of features of the marketing of Queensland raw sugar were not greatly affected by the Federal or State Government controls and were absorbed into the new system with little or no change. C.S.R. from back in the previous century had been contracting to buy the output of raw sugar from the Queensland mills. The contracts provided that the company would supply the mills with the sacks, would take over the raw sugar at mill port and pay freight and insurance from that point onwards, and would make advance payments for the greater part of the value of the raws as shipped—paying the balance at the end of the year when the final average price of refined for the year became known. These matters, even today, are features of the pool system and of C.S.R. functions. It is of interest that the company from the previous century had been varying the price to the mills for their raws on a sliding scale linked directly to the price of refined sugar (which had to compete with imported refined). All this amounted to a fairly complete C.S.R.-operated raw sugar marketing pool, not dissimilar in many respects from that now in operation.

The Queensland Government in 1923 had undertaken major and complicated responsibilities in its agreement with the Commonwealth. It continued to acquire under its Sugar Acquisition Act all raw sugar as made by the mills. Such acquisition obviously did not apply to raw sugar made in New South Wales. Also, since the Queensland Government had no jurisdiction over refineries outside Queensland, it had no direct means of carrying out its obligations to supply refined sugar.

The embargo on imports and the acquisition by the Queensland Government of all raw sugar produced in that State meant that the refiners had to get their raw supplies from that Government, except for the small quantity made in New South Wales. Importation would be refused by the Commonwealth if Australian raws were available.

These matters were handled by a contract between the Queensland Government and C.S.R. which has been renewed annually for 32 years with few changes of principle. Under this contract the company agreed to sell the New South Wales raw sugar (all made at its own

mills) to the Queensland Government, to refine the sugar required by Australian consumers, and to carry out for the Queensland Government in all States (except for the quantity to be handled similarly by the Millaquin Refinery) its obligation to supply the Australian public at the price agreed between the Governments.

Thus began the Australian raw sugar marketing pool, controlled by the Queensland Government through its Sugar Board, managed and operated by the Colonial Sugar Refining Company.

There was a new development in 1925 when a big increase took place in the quantity of raw sugar for export at a time when the export price had fallen heavily. The then Chairman, Mr E. W. Knox, said: "As a contribution to relieve the industry in its difficulties arising out of overproduction, the Company is willing to handle and finance the surplus sugar without charge for services and without interest." Although exports grew to more than half of total raw sugar production, this "contribution" continued until recently and still applies in part, but the financial burden of advances on export sugar became very considerable a few years ago and a charge for financing it is now made.

The company's remuneration for refining and selling home consumption sugar, for financing, for providing the bags, and for other smaller matters, is by fees expressed as rates per ton. There is therefore a direct incentive to increase the total tonnage sold in Australia. But, since the fees are not a percentage of sale proceeds, C.S.R. is not directly interested, in its capacity as refiner and seller, in the selling price of refined sugar in Australia. Since 1915 the refiners, contrary to popular belief, have not been consulted about price changes. The import embargo is operated for the benefit of the raw sugar industry—the millers and growers.

This bare outline provides the historical background to an unusually complex group of arrangements—but one which has withstood the test of time, of changing governments in Canberra and Queensland, of changing management in the company, of the big development of export sugar, and of greatly changed economic conditions. The strangest part of all to most people is the smooth-working partnership of the Queensland Government—Labour all the time except for three years—and twentieth-century corporate capitalism in the shape of C.S.R. Although the facts are clearly and publicly documented, the company's relations with the Queensland Government and the rest of the industry have been called an "enigma".

The clues to the mystery, if it be one, are found in a combination of various things. For instance, even if it did not relish the situation—

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on which recorded history is silent—the company had to get raw sugar from the only source. That it was satisfied is indicated by its willingness to add the New South Wales raw sugar to the general pool. On the other side, unlimited power is not held by the Queensland Government, as the main refineries are outside the State.

A factor of importance has been that, while change and development can and do occur, hardly any suggestion has ever been made that the tried and proved business practices of the company should be seriously disturbed. In practice, C.S.R. continues to obtain sugar from the mills, paying for it, shipping, refining and selling it, as if there were little change. The Sugar Board has appreciated the advantages of not attempting to insert itself between C.S.R. as refiners and the company's customers. Because of this C.S.R. retains a full sense of responsibility and interest, a condition which is essential if men are to give continuously of their best creative efforts.

Queensland Governments have been vitally concerned with the welfare of the sugar industry, one of the most important in the State. They have been moderate and helpful and have had the marketing of sugar carried out to the satisfaction of themselves, C.S.R. and the raw sugar industry. The three Chairmen of the Sugar Board (W. J. Short, the Honourable W. Forgan Smith and P. J. Donnollan) have been far-sighted and possessed of deep personal interest in the welfare of the industry.

A most important element in the situation has been the company's great underlying interest as the largest millowner and therefore the biggest single participant in the results of the marketing pool. This has enhanced the feeling of responsibility and belonging, without which the attitudes on all sides could hardly have been quite the same. There is no other industry where all these circumstances would be duplicated.

The vital ingredients need emphasizing. First, C.S.R. treats work for the marketing pool as an integral part of the company's business and deals with it in the same commercial way as with the rest of its business. Secondly, C.S.R. staff are in a position to act with keenness, interest and responsibility on the basis that attention to and the success of the Sugar Board business is completely in the interests of the company; any suggestion that it is a thing apart or that they are being interfered with or are working for some other and remote interests would be extremely detrimental—and the Sugar Board has understood this. Thirdly, a high level of mutual confidence has been built and maintained between the board, the industry and the company.

Sugar Industry Organizations

The Sugar Board consists of four members: chairman, secretary, a miller and a grower, all appointed by the Queensland Government. The company was invited to have a representative but declined as it had to carry on business transactions with the board.

The Central Sugar Cane Prices Board has important functions in controlling the level of production and arbitrating between miller and grower. In addition to the chairman and two other government-appointed members, the growers and millers each have one representative on this important board. Officers of the company have been elected by the millowners to fill the position of millowners' representative ever since the board was founded in 1915. In New South Wales and Fiji, where C.S.R. is the only millowner, no similar authority has been required.

Space does not allow, in this book about the company, more than bare references to Australian sugar industry organizations; there are several important organizations in addition to the research institutions, whose work is mentioned elsewhere. The Australian Sugar Producers' Association is the older association, having been founded in 1907; its membership comprises, on a voluntary basis, all the millowners other than C.S.R., plus about half of the growers. The Queensland Cane Growers' Association, to which all Queensland growers are required by law to belong, was established by 1926 legislation to take the place of a previous voluntary association of growers. The New South Wales Cane Growers' Association consists of the growers in that State on a voluntary basis. The Proprietary Sugar Millers' Association has a membership covering millowners other than co-operative mills and C.S.R. Although the company is not a member of these industry associations it does support some of them financially and works with all on matters of mutual interest.

These organizations together with C.S.R. cover all phases of the industry and governments can and do get the viewpoint of the whole industry by consulting them. Students of social organization will notice a rather complete system of checks and balances. The Australian sugar industry has been said to be "almost completely socialized", but it is not. The profit motive continues to operate throughout. There is a large measure of control, which cannot be avoided where an industry works under complete protection by so sweeping a method as an embargo and where strict limitation of production is necessary by methods other than the sanction of unremunerative prices.

Monopoly

"Monopoly!" It is a telling label to tie on one's opponent in the hot debate, or with which to draw an emotional and political red herring across discussion—whether one tags it on a large business, a trade union or the government railways. Much is heard from numerous armchair analysts and publicists but little from the objective thinkers and researchers who have closely examined the full facts of monopoly situations in recent times. Only from the full details of industry, of union affairs, of government activity, can truth and fact about monopoly be ascertained; and appearances are often misleading. Wise policies for the public welfare are unlikely to develop from generalizations, or from verdicts which are derived from mere theory and do not stem from, and which are not kept constantly up to date with, the real and current facts; business and capitalism have changed and are still evolving.

"Madmen in authority," said J. M. Keynes, in a colourful moment, "who hear voices in the air, are distilling their frenzy from some academic scribbler of a few years back." And F. A. Hayek adds, "While we must emancipate ourselves from that servitude to current prejudices in which the politician is held, we must take a sane view of what persuasion and instruction are likely to yield."

The admonitions of these eminent men are relevant to the endemic disease of name-calling. "Monopoly", critics have said, "is rife in the Australian sugar industry." Some point to the selling monopoly which they say the well-organized industry holds over the Australian sugar market; others to the buying monopoly which mills are said to have in respect of farmers' cane; and still more to the so-called monopoly of C.S.R. in refining. Some point even to the Queensland Cane Growers' Association, which all growers must compulsorily join.

Although the dictionary meaning of "monopoly" seemingly applies in many of these cases, it is the economic power of monopoly which is really under fire, for the key to true monopoly is power. In economics and business it is power over market and price. Business means, in its fundamentals, buying and/or selling. Price is the crux of the matter.

It should be noted in passing that it has been deliberate government action which created three of these circumstances, viz. the reservation of the whole home consumption market for the local sugar industry, the compulsory organization of all Queensland growers by legislative action, and the removal, unsought by refiners, of overseas competition

from the refining industry, previously conducted on a free trade basis.

Some careful men have written on monopoly and they are agreed about its definition. Taking two only: Alfred Marshall, the eminent English economist, writing in 1920, and Edward Chamberlin, Professor of Economics of Harvard University, a world expert on monopoly, writing in 1948, both agreed that business monopoly means *control over price*.

To take into account other shades of opinion, reference may be made to the British Fabian Society, where one can expect to find the most exacting criticism of private monopoly, as distinct from that of governments or trade unions. In a special study of monopoly, published by the Society in 1947, W. Arthur Lewis makes these points:

Monopoly is a deceptive phenomenon. The sole test of the existence of real monopoly power is the power to control prices. Many situations which look monopolistic are not, because effective control of prices is absent.

When we speak of monopoly . . . we must seek to measure in each case how real is the power it confers.

Most monopolies [in the United Kingdom] can be absolved of any charge of extortionate prices and profit.

The conclusion that they restrict consumption is misleading.

Many points can be made against monopoly but the two most important are that it is inefficient and that it is undemocratic.

From the description of the Australian sugar industry it will have been observed that wherever monopoly seems to exist, in respect of any part of the industry, there is a variety of strong checks and balances which reduce or eliminate "power", by definition the key to monopoly, and also that the seeming monopolists do not control the price. Therefore, according to modern definition of monopoly, outward appearances are misleading and effective monopoly does not exist.

In refining, the company has a competitor in Queensland which supplies one-third of the market there. C.S.R. is not even a party to the fixing of refined sugar prices, but merely sells its services. In that negotiation it has to come to terms with the Sugar Board, which has a complete buying monopoly, set up by statute and backed by all the powers of government, for C.S.R. services, with legal control over the company's raw material. It is not a particularly comfortable "monopoly" that the embargo imposed, unsought, on the refiners.

As to the residuum of criticism, even by such severe critics as the Fabian socialists, against private monopoly—"that it is inefficient and that it is undemocratic"—no one in the sugar industry (even if by true definition it does contain any elements of monopoly) would feel disturbed. And the reader may judge for himself from the facts.

What People Think

A situation which is as complex as the one just described will never be understood in detail by a majority of the people. Nevertheless, people have a habit of forming opinions and it is of interest to find what these opinions are. C.S.R. has therefore had carried out, by competent organizations of high repute, surveys on the opinion of the Australian public about the company. Several of these surveys have been made in the last nine years.

They have covered samples of men and women scientifically chosen to represent the community. Neither the people who did the interviewing nor those interviewed knew who had asked for the survey and the company's particular interest could not be guessed because questions were included on eight other major industries and organizations. The techniques used were the best applicable in this particular field.

Surveys of this kind are fairly accurate but it would not be claimed by the organizations making them, nor by the company, that they are precise to the exact percentage shown by the mathematical distribution of the answers.

The latest such survey was made in 1955 by Opinion Research Centre (Gallup Poll). The first question covered the political question of nationalization. The proportion in favour of C.S.R. remaining as a company, instead of becoming a nationalized industry, was 77 per cent; 11 per cent had no opinion and only 12 per cent were in favour of the Government taking over the company.

It is a point of considerable significance that such a high proportion of the people had a definite opinion; it shows the interest that exists in big companies. Excluding the small number (11 per cent) with no opinion, 87 per cent of those with an opinion were in favour of the company. The survey also showed another significant thing—that the public differentiates between various companies and industries, and is more in favour of government intervention in some than in others. Comparatively, as well as absolutely, C.S.R. stood quite high in public opinion.

In answer to another question 50 per cent of the people regarded

C.S.R. as a monopoly, a similar proportion had the same opinion about the Waterside Workers' Federation and the state-owned railways. Only one out of ten, however, thought that C.S.R. uses its "monopoly" unfairly, while two out of ten said that the railways are unfair, and more than three out of ten said that the Waterside Workers' Federation is unfair in applying its monopoly.

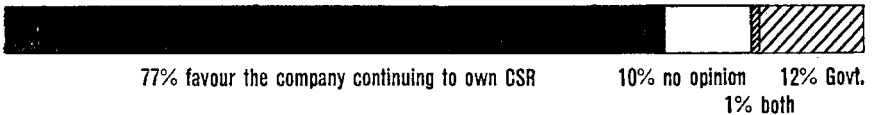
Only about one person in twenty-five said that C.S.R. is not well run, and only one in twenty-five said that the company does not have a good reputation.

While opinions may not reflect facts, and facts could be favourable even if opinions were not, public opinion is important in a political democracy. It is gratifying to the company that the public does not hold unfriendly feelings towards it and that its reputation is high. Readers of this book will have more information than the public on which to form their own opinions.

PUBLIC ATTITUDES TOWARDS C.S.R. IN AUSTRALIA, 1955

Main findings of a survey carried out during March and April 1955 by Mr Roy Morgan of Opinion Research Centre (Gallup Poll), Melbourne, in Sydney, Newcastle, Melbourne, Geelong, Brisbane, Adelaide, Perth, Hobart and Launceston.

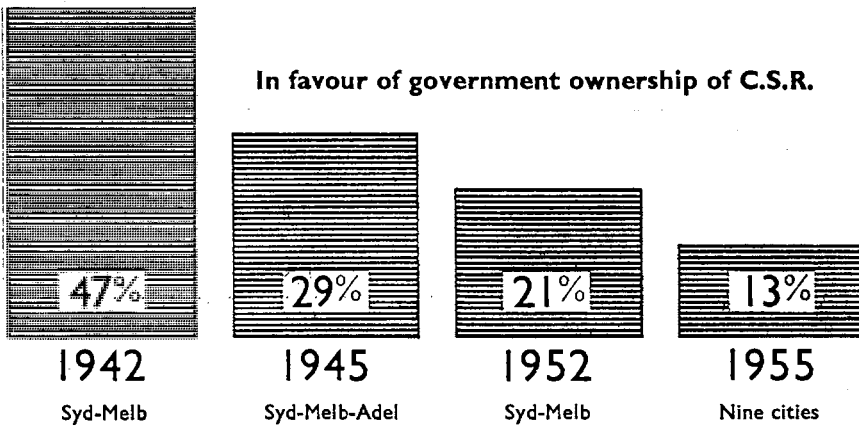
Ownership. Each person interviewed was handed a card listing nine major companies, industries, or groups of industries, and asked: "We'd like your opinion on whether large industries, like these, should be owned and run by the Government, instead of by companies".



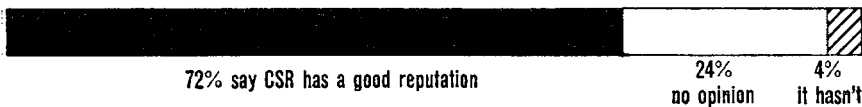
In answering this question the public differentiated quite clearly between various industries. Three industries—large city stores, city newspapers, and a medium-sized food industry—scored higher majorities than C.S.R. for company control; others scored considerably lower; C.S.R.'s score was above the average.

Trends of Opinion Regarding Government Ownership. The results of this survey compared with previous independent surveys of opinion in Australian cities show that over the last 12 years the proportion of the public in favour of government ownership in industry has been decreasing. Those in favour of government ownership of C.S.R. have declined from 47 per cent in 1942 to 13 per cent in 1955, including 1 per cent favouring joint ownership as shown above.

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Reputation of C.S.R. Each person interviewed was asked to give an opinion of the reputation of various organizations. *"And the reputation of C.S.R.—do you think it's good, or not?"*

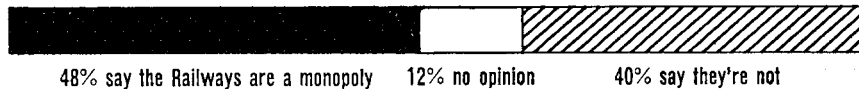


Only one person in twenty-five held that C.S.R. does not have a good reputation. C.S.R. had one of the lowest figures for poor reputation. Three out of four people hold the positive opinion that C.S.R.'s reputation is good.

Monopoly and Fairness

Question: *"Would you say that the railways are a monopoly or not? The Waterside Workers' Federation? The C.S.R. Co.?" (and some others).*

RAILWAYS



WATERSIDERS



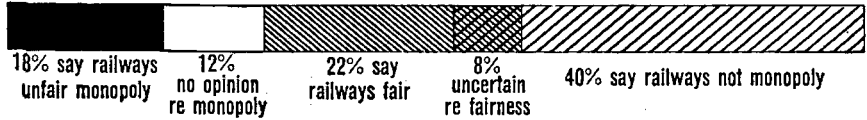
C.S.R.



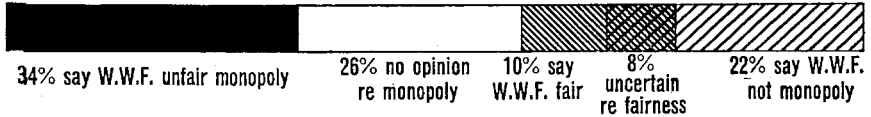
SOUTH PACIFIC ENTERPRISE

Question: *For each organization named as a monopoly interviewers asked: "In your opinion does (ORGANIZATION) use its monopoly unfairly, or not?"*

RAILWAYS



WATERSIDERS



C.S.R.

