



The Rice Marketing Board

FOR THE STATE OF
NEW SOUTH WALES

**8th Annual Report to NSW Rice Growers
For the 2018-19 year
October 2020**

A report to New South Wales rice growers on the performance of the Board against its stated objectives and on the performance of SunRice as the holder of the Sole and Exclusive Export Licence.

Introduction

The Rice Marketing Board for the State of NSW (the Board) is pleased to present the eighth annual report to New South Wales rice growers on the performance of the Board against its stated objectives, and on the performance of SunRice as the holder of the Sole and Exclusive Export Licence (SEEL).

This report covers the year 2018-19. In early 2018, the Board received an access application under the *Government Information (Public Access) Act 2009* (GIPA Act). This case has resulted in a delay to the verification process. The assessment of the SEEL holder for 2019-20, including the verification of the 2019-20 calculations of the Export Price Premium and Freight Scale, is currently underway and a report will be provided on the Board's website in the near future.

The *Rice Marketing Act 1983* (the Act) directs that all rice produced in NSW be vested in the Board. Vesting is based on the proposition that providing a single statutory authority, the Board, with the legal right to control the marketing of rice produced in NSW will yield net benefits to the NSW rice industry and to the general community.

In 2006, the domestic rice market was deregulated, and the Board now issues licences to Authorised Buyers who trade NSW rice within Australia. In 2017 the Board re-appointed Ricegrowers Limited, trading as SunRice, (SunRice) as the holder of the SEEL for the next five years, subject to an annual review.

A Proclamation by the NSW Governor outlines the objectives of the Board as:

- (a) To encourage the development of a competitive domestic market for rice;
- (b) To ensure the best possible returns from rice sold outside Australia based on the quality differentials or attributes of Australian rice; and
- (c) To liaise with and represent the interests of all NSW rice growers in relation to the Board's functions and objects.¹

Section A of this document reports on the performance of the Board against these objectives. Section B provides an assessment of the performance of SunRice as the SEEL holder, based on the independent verification of the export price premium and the freight scale advantage by Syneca Consulting Pty Ltd.

¹ NSW Government Gazette No. 75, 22 May 2009, p. 2310

Section A

The Board's performance against its stated objectives

- (a) The Board continues to encourage a competitive domestic market for rice by facilitating participation in the market in the following ways:
- Reviews licence holders' annual returns;
 - Regularly reviews the fee schedule for authorised buyers;
 - Meets with Authorised Buyers;
 - Provides information to rice growers and buyers; and
 - Manages an annual audit of the NSW rice crop to ensure compliance with the Act.

There are currently eleven licensed Authorised Buyers and the Board has issued licences to all parties who have applied for an Authorised Buyers Licence, have met the required conditions, and have signed the Authorised Buyers Licence Agreement.

- (b) Ensuring the best possible returns on rice sold outside Australia

The Board again commissioned a report which has independently verified the 2018-19 export price premium and freight scale advantage as calculated by the SEEL holder SunRice. The commencement of the 2018-19 verification process was delayed due to circumstances beyond the control of the RMB and the independent consultant. The verification of the 2018-19 calculations has concluded and work has commenced on verification of the 2019-20 data.

The Board also assesses the performance of the SEEL holder through regular discussions with the SunRice Chairman and an annual review of SunRice's business performance.

Other ways the Board meets its second object are:

- Conducting annual crop audits to ensure that NSW grown rice is sold through Authorised Buyers; and
- Monitoring rice exports to ensure they are consistent with the Act.

- (c) The members of the Board liaised with NSW rice growers during 2018-19, in relation to its objects and activities, through the following means:

- Attending the Ricegrowers' Association of Australia (RGA) Central Executive meetings;
- Attending RGA branch meetings;
- Supporting industry activities including the RGA Annual Conference, the Rice Industry Leadership Program and the Rice Industry Awards;
- Attending other regional rice meetings and the rice field days in the Murray-Riverina and Northern Rivers regions;
- Providing information on the Board's website, including Annual Reports, regular news updates, Authorised Buyers' contact details, Board policies and the Charters of the Board and Committees;
- Communicating with the President and Executive Director of the RGA on issues relevant to the rice industry;
- Providing regular articles in the RGA newsletter, "Rice Matters"; and
- Inviting all NSW rice growers to the Board's Annual Meeting held every November.

Section B

Summary of SunRice's Performance as SEEL Holder

SunRice bought approximately 97% of the 2018 NSW rice crop, which was then milled and marketed during 2018-19. SunRice achieved a net profit after tax of \$32.8million.² In 2018-19 SunRice, through an appropriate application of the vesting arrangements, achieved an export price premium of \$25.8million.

(a) Independent verification of the 2018-19 Export Price Premium

International rice markets are subject to various government interventions including tariffs, quotas and world trade obligations. In addition, overseas markets have specific preferences as to the variety of rice they prefer³. SunRice's five year strategy is to maintain NSW rice in the premium markets while supplying high volume, low value markets with globally traded rice, for example from Vietnam.⁴

The export price premium is a measure of the performance of SunRice in adding value for NSW rice growers by exporting NSW rice to overseas markets. The export price premium calculation is the difference between the price achieved by SunRice and a benchmark for competitor prices in that market.

Syneca Consulting Pty Ltd was engaged to perform an independent review of the calculation of the export price premium and freight scale advantage for the year ending 30 April 2019.⁵

The verification process is divided into three steps:

- Assessment of the soundness of the methodology adopted by SunRice;
- Verification of the assumed values of the inputs that go into the calculations; and
- Checking the accuracy of the calculations.

Based on the findings of this review, and its own monthly review of SunRice's operational and financial results and position, the Board finds that SunRice as the holder of the SEEL, continues to deliver substantial benefits to NSW rice growers.

The Board can also confirm the existence of other significant benefits to growers as a result of SunRice holding the SEEL.

The Syneca Consulting report highlighted the following:

- An export price premium delivered to growers of \$25.8million, up from \$21.7million in the previous year;⁶
- A freight scale advantage of \$4.39million (2017-18: \$7.81million) in addition to the export price premium;⁷

² Ricegrowers Limited 2019 Annual Report, p. 51

³ Syneca Consulting Pty Ltd. Verification of the calculations of the export price premium and freight scale advantage report, 2019, Commercial-in-confidence, p.iii.

⁴ Ricegrowers Limited 2019 Annual Report. p. 8

⁵ SunRice's financial year is from 1 May 2018 to 30 April 2019.

⁶ Syneca Consulting Pty Ltd. Verification of the calculations of the export price premium and freight scale advantage report, 2019, Commercial-in-confidence, p. 17

⁷ Ibid, p. 33.

- After a slight fall in crop year 2017, average rice prices achieved by SunRice reached a maximum in crop year 2018, while the trend in the benchmark competitor price has been a steady rise since 2013.⁸
- There has been substantial movement in the export price premium for the various markets since 2011. On balance, the export price premium shows no dramatic changes from year to year, and the conclusion drawn by the independent reviewer is that, while the market factors underlying the observed changes are complex, the movement does not throw doubt on the export price premium as a valid measure for the performance of SunRice under the SEEL.⁹

(b) Assessment of SunRice in relation to stated objectives

1. Delivery of export price premiums to NSW rice growers

i. Value of export price premium for 2018-19 year

An export price premium of \$25.8million for the 2018-19 year (2017-18: \$21.7million) was achieved by SunRice as the current holder of the SEEL.¹⁰ The premium is calculated as the difference between the average local SunRice sale price, less the average weighted local competitor sale price, multiplied by the volume sold.

ii. Developments in key markets as reported by SunRice

SunRice grew its international rice business in 2018-19 by acquiring and developing a rice mill in Vietnam's Mekong Delta and signed a memorandum of understanding with two Mekong Delta provincial governments to grow sustainably sourced rice to a quality and specification tailored to SunRice's end markets¹¹. Thirty percent of SunRice's NSW rice revenue was generated in the Middle East, 18% in Asia, 3% in the Pacific countries and 4% in other countries. The remaining 45% of NSW rice revenue was generated from within Australia. A record 6,800 tonnes of Australian grown koshihikari short grain rice was sold, including to new markets in Japan, Europe and North America, delivering NSW growers higher returns.¹² SunRice also commenced trading in Libya and re-established distribution relationships in Syria.¹³

iii. Demonstration of Freight Scale Advantage to Rice Growers

This benefit of the SEEL refers to freight savings that SunRice obtains as a result of the current volumes of rice exports and the pattern of trade during the year, and that would not be available to individual rice growers or smaller consortiums. Freight scale advantages arise due to the benefit of delivering larger volumes into export markets thereby lowering delivery costs for NSW rice into export markets.

⁸ Ibid. p.24

⁹ Ibid. p.26

¹⁰ Ibid. p ii-iii.

¹¹ Ricegrowers Limited Annual Report 2019, p.8

¹² Ibid p.14

¹³ Ibid p.3

SunRice produced a total freight scale advantage of \$4.39million (2017-18: \$7.81million) in 2018-19. The calculation by SunRice of the freight scale advantage was estimated based on discount ranges/indications of the volume discounts provided by freight companies, and is not based on a specific analysis of actual discounts received.

The freight scale advantage for 2018-19 is significantly lower than in the prior year and will be investigated by the consultants when the 2019-20 calculations are reviewed.

iv. Demonstration of the Advantages of Scale to Rice Growers

A component of the paddy price for rice grown in NSW and purchased by SunRice is derived from the degree of efficiency in rice-milling. SunRice continues to report to the Board on its milling capacity management.

2. Assessment of the ongoing delivery of other secondary benefits provided by the SEEL holder to NSW rice growers

- i. Ability to successfully compete with imported, typically long grain, rice.
 - SunRice's ability to compete against imported long grain and jasmine rice is directly related to the size of the Riverina grown crops of this type.
 - Due to its brand strength in the retail channel, SunRice is able to compete against private labels and command a substantial shelf premium.
- ii. Demonstrated ability to respond to changes in conditions and continue to operate profitably
 - Through the adoption of their corporate strategy, SunRice has seen the demand for products increase significantly over the past few years.
 - Net profit before income tax was \$48million in 2018-19, a decrease in profit compared to 2017-18.¹⁴
- iii. Contribution to Research and Development
 - The majority of SunRice's investment in research and development is managed through their Australian Rice Partnership with AgriFutures and NSW Department of Primary Industries and focuses on rice breeding.¹⁵
 - SunRice continues to provide funding for rice research and development to its subsidiary, Rice Research Australia Pty Ltd.
- iv. Buyer of last resort and track record of good returns
 - A condition of the SEEL agreement between SunRice and the Board, is that SunRice be the buyer of last resort. This provides certainty for growers that their NSW crop will be sold if it is of merchantable quality.
 - SunRice has an unbroken record of paying the indicated returns, or better, to growers on or before scheduled payment dates.

¹⁴ Ricegrowers Limited Annual Report 2019, p. 51

¹⁵ Rural Industries Research and Development Corporation (now AgriFutures) Rice Program Five Year RD&E Plan 2016/17 to 2021/22, p.15.

- SunRice again offered fixed price contracts and varietal premiums to Riverina rice growers in 2018-19.¹⁶
- v. Operating a transparent pool and regularly updating growers on price trends and payment dates
- vi. Financing of crop at competitive interest rates
 - SunRice does not profit from forward finance arrangements as happens in other industries and it currently underwrites these financial arrangements.
- vii. Provision of rice storage
 - Paddy storage is provided by SunRice through its subsidiary, Australian Grain Storage Pty Ltd.
- viii. Pure Seed production and supply to rice growers
 - SunRice operates a quality assured Pure Seed Program to supply registered seed for commercial rice varieties to growers
 - Rice Research Australia Pty Ltd produces breeders' seed for SunRice's Pure Seed Program.
- ix. Strength of products and related brands to drive ongoing demand
 - SunRice continues to invest in its brands, through product innovation, and consistent above and below the line support to its branded products to command the premiums achieved in the market.

3. Impact of changes in the availability of water

Reduced water entitlement continues to have an impact on rice production. SunRice has indicated that the impact is twofold: irrigators have less water to grow crops and temporary water prices have escalated in some seasons to make water purchase for rice production unviable. Additional competition for water from other crops, such as cotton and nuts, is adding to the impact.¹⁷

4. Financial Performance of SunRice¹⁸

SunRice was admitted to the Official List of the Australian Securities Exchange in April 2019.

The SunRice financial statements indicate a strong performance in 2018-19, however there was a relatively small decrease in rice pool revenue from \$440M in 2017-18 to \$410M in 2018-19. The Riverina crop size was over 54,000 paddy tonnes. Despite this, SunRice growers received a record pool price of \$411.19 per tonne.

¹⁶ Ricegrowers Limited Annual Report 2018, p.14

¹⁷ Ricegrowers Limited, SEEL Annual Review response, September 2018, Commercial-in-Confidence, p. 12.

¹⁸ The information in this section is taken from Ricegrowers Limited's Annual Report 2019 including the audited Financial Statements.

- i. **Income Statement**
 - Revenue from continuing operations totaled \$1.19billion in 2018-19 (2017-18: \$1.18billion)
 - Expenses were \$1.1billion (2017-18: \$1.12billion)
 - Net Profit After Tax was \$32.8million (2017-18: \$45million), a decrease of 27%
 - Dividend paid to B Class shareholders was 33 cents (2017-18 33 cents)
 - Earnings per share was 54.5 cents in 2018-19 compared to 75.9 cents in the prior year.

- ii. **Balance Sheet**
 - Net Assets were \$463million in 2018-19, an increase of \$29million (2017-18: \$434million)
 - Retained earnings increased to \$307million, from \$294million in 2017-18.

- iii. **Cash Flow**
 - SunRice's cash and cash equivalents at year end totaled \$10.4million (2017-18: \$123million).

- iv. **Other relevant financial matters for the year to 30 April 2019**
 - Total liabilities have decreased from \$600million in 2017-18 to \$367million in 2018-19
 - SunRice's currency exposures are managed under its Treasury policy. The company is compliant with the requirements of the policy.
 - Capacity to pay growers for paddy: seasonal borrowing facilities of \$267M to meet grower payments increased by \$32M compared to the prior year.
 - Capacity to pay debt, seasonality of debt, and interest cover: Ability of SunRice to meet financial commitments is tested regularly. All bank loan covenants have been met.
 - Interest rate exposures are managed under SunRice's Treasury policy. SunRice is compliant with the requirements of the policy.
 - Fixed Asset Management: Capital investments by SunRice during 2018-19 totaled \$million (2017-18: \$22million).
 - Gearing ratio increased to 19% (2017-18: 9%).

5. Changes of Board of SunRice

During the 2018-19 year, Mr Grant Latta AM retired from the SunRice Board. Ms Luisa Catanzaro and Dr Andrew Crane were appointed in September 2018.

6. Risk management

SunRice lists the following risks in its 2018-19 Annual Report:

- The global rice price which fluctuates as a result of local and international changes in supply and demand which are themselves influenced by weather conditions, levels of global stockpiles, tariffs and other trade barriers.

- The supply of NSW rice which is a factor of available water at an affordable price and the competitiveness of rice compared to alternative crops.
- Fluctuations of foreign exchange rates where no hedge exists, particularly in countries where foreign currencies are not freely traded or available and no or limited hedging opportunities exist.
- Sovereign and political risk in the countries where SunRice operates.
- The physical and transitional risks and opportunities induced by climate change.

Conclusion

The Rice Marketing Board for the State of NSW continues to deliver against the objectives of the *Rice Marketing Act 1983*, to the benefit of all NSW rice growers.

The Board is confident its administration of the SEEL, and the appointment of Ricegrowers Limited to operate this licence, results in both export price premiums and substantial secondary benefits to rice growers.

The Board will continue to work with the NSW Government and all rice growers to monitor the benefits accruing from the current arrangements.