



The Rice Marketing Board

FOR THE STATE OF
NEW SOUTH WALES

**5th Annual Report to NSW Rice Growers
October 2016**

Introduction

The *Rice Marketing Act 1983* (“the Act”) directs that all rice produced in New South Wales (“NSW”) be vested in the Rice Marketing Board for the State of NSW (“the Board”).

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

- To encourage the development of a competitive domestic market for rice;
- To ensure the best possible returns from rice sold outside Australia based on the quality differentials or attributes of Australian rice; and
- 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 while Section B provides an assessment of the performance of the Sole and Exclusive Export Licence (“SEEL”) holder.

Section A

The Board's performance against stated objectives

(a) The Board continues to encourage a competitive domestic market for rice by facilitating participation in the market in the following ways:

- There are currently ten 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

Again this year the Board has commissioned a report which has independently verified the export price premium as calculated by the SEEL holder Ricegrowers Limited trading as SunRice (“RL”). On the basis of the information provided by RL, the independent verification report and its own observations, the Board has concluded that RL, and the single desk arrangements, continue to provide substantial benefits to NSW rice growers.

(c) The members of the Board liaised with NSW rice growers over the past twelve months, in relation to its objects and activities, through the following means:

- Attending the Ricegrowers’ Association of Australia (“RGA”) branch meetings;
- Sponsoring and attending the RGA Annual Conference;
- Visiting the Northern Rivers area to meet with local Authorised Buyers;

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

- Providing information on the Board's website, including Annual Reports, regular news updates, Authorised Buyers contact details, Capital Equity Rollover Scheme rules, Board policies;
- 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";
- Inviting all NSW rice growers to the Board's Annual Meeting held every November; and
- Being available to all growers, through its sole employee, the Board Secretary.

Section B

Summary of RL's Performance as SEEL Holder

(a) Independent verification of the 2015-16 Export Price Premium

Grant Thornton Australia Ltd was engaged to perform an independent review of the export price premium and freight scale advantage for the year ending 30 April 2016.² Based on the findings of this review, and its own monthly review of RL's operational and financial results and position, the Board finds that RL as the holder of the SEEL, continues to deliver substantial benefits to NSW rice growers.

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

The Grant Thornton review highlights the following:

- An export price premium delivered to growers of \$70.7million;³
- The average medium grain export prices achieved by RL have been greater than those achieved by Californian exporters for the majority of the past three crop years (see graph on page 38);
- Positive trends generally in key markets and market share;
- Paddy price premium includes efficiency scale advantage;
- Freight scale advantage of \$9.2million (2014-15: \$14.3million) delivered to growers, in addition to the export price premium;⁴
- RL delivers other substantial benefits to growers. For example, the ability to respond to changes in market conditions, product research and development, buyer of last resort, history of reliable sales and payments, crop finance, rice crop insurance, provision of storage and purity of seed; and
- Sound financial performance of RL, including:
 - o Revenues of \$1.3 billion (up 1.9% on 2014-15);
 - o Net Profit After Tax (NPAT) of \$52million (up 5.8% on 2014-15); and
 - o Debt to equity of 46.6% (up from 43.9% in 2014-15).⁵

² RL's financial year is from 1 May 2015 to 30 April 2016.

³ Grant Thornton Australia Ltd. Verification of the export price premium and freight scale advantage report, 2016, Commercial-in-confidence, p. 7.

⁴ Ibid, p. 11.

⁵ Ricegrowers Limited Annual Report 2016, Group highlights, pp. 8-9.

(b) Assessment of RL in relation to stated objectives

1. Delivery of export price premiums to NSW rice growers

i. Value of export price premium for 2015-16 year

An export price premium of \$70.7million for the 2015-16 year was achieved by RL as the current holder of the SEEL.⁶

The export price premium is calculated for each of the five major export regions in which RL operates, and also across all of these regions. These markets comprise the Pacific Majors (Papua New Guinea (PNG) and Solomon Islands), the Middle East, World Trade Organisation (WTO) Markets (Japan, Taiwan and South Korea), New Zealand, and the Pacific Islands.

The premium is calculated as the difference between the average local RL sale price, less the average weighted local competitor sale price, multiplied by the volume sold.

While the reported 2015-16 export price premium of \$70.7million has decreased from the 2014-15 premium of \$82.4million, the premium per tonne has increased slightly to \$101.96 per tonne based on the 2015-16 rice crop production of 693,000 tonnes (2014-15: \$99.40 per tonne). Grant Thornton Australia Ltd stated in its verification report that the total premium has decreased \$11.7million due to further declines in PNG volumes sold, due to a lower Australian domestic crop and the continued release of cheaper rice blends in the market.

ii. Three year trend of the average Free on Board (FOB) Price

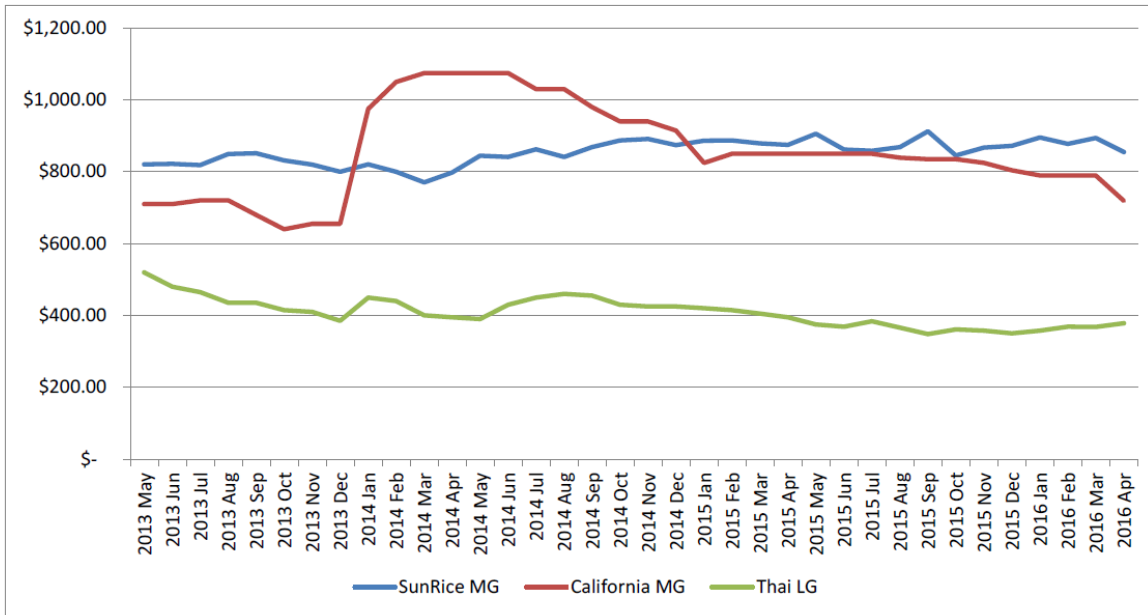
The following graph displays the three year trend of the average FOB price achieved by RL Medium Grain rice in export markets (for exported Australian rice) compared to the average FOB California medium grain price and Thai long grain price⁷. The graph shows that RL medium grain has consistently traded above California medium grain since early 2015. It also shows that medium grain continues to sell at a significant premium to long grain on the world market.⁸

⁶ Grant Thornton Australia Ltd, Op. Cit., p. 7.

⁷ Ricegrowers Limited, SEEL Annual Review Response, September 2016, Commercial-in-Confidence, pp.4-13.

⁸ The January 2014 price spike for Californian rice reflects the sharp increase in United States medium grain asking prices as a result of the Californian drought and the anticipated restricted future paddy supply.

Medium Grain Rice Price Time Series 2013-2016
SunRice Export Market Prices vs California MG
 FOB US\$/MT Basis



iii. Summary of trends or developments in key markets as reported by RL

Due to brand strength, RL remained the dominant market player in the Pacific region and the Middle East, and also saw strong volume growth in Asia during 2015-16. A new RL subsidiary based in Singapore was opened in 2015, to build and facilitate sustainable relationships with customers, marketers and suppliers in Asia. An RL office was also opened in Dubai to provide representation for high potential regional areas.⁹

iv. Demonstration of Freight Scale Advantage to Rice Growers

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. These benefits provide a further advantage against international competitors and would not be available in the absence of the scale delivered under the SEEL arrangement.

RL produced a total freight scale advantage of \$9.2million (2014-15: \$14.3million) in 2015-16, which equates to \$13.33 per tonne (2014-15: \$17.27 per tonne).¹⁰ If volumes were lowered as a result of other exporter participation, the scale advantage that is passed back to growers would be significantly reduced.

The calculation by RL of the freight scale advantage was estimated based on discount ranges/indications of the volume discounts provided by four freight companies, and is not based on a specific analysis of actual discounts received. Grant Thornton stated in its verification report of 7

⁹ Ricegrowers Limited Annual Report 2016, p. 16.

¹⁰ Grant Thornton Australia Ltd, Op. Cit., p. 7.

September 2016 that “*this is the only practical way of estimating the savings given smaller scale competitor rates are confidential*”.¹¹

v. Demonstration of the Advantages of Scale to Rice Growers

A component of the paddy price for rice grown in NSW and purchased by RL is derived from the degree of efficiency in rice-milling. RL continues to report monthly to the Board on its milling capacity management. Current NSW milling capacity on a 24/7 basis is 880,000 tonnes. This represents a theoretical utilization of 27.6% of New South Wales milling capacity, based on the C16 crop size of 243,000 paddy tonnes.¹²

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.
 - RL’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, RL 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 2012 strategic plan, RL has seen the demand for products increase significantly.
 - Net profit before income tax of \$73million in 2015-16 represents a 3.6% increase on 2014-15 profit.
- iii. Contribution to Research and Development.
 - RL continues to provide significant funding for rice research and development to its subsidiary, Rice Research Australia Pty Ltd. New seed varieties are currently being trialed that are expected to deliver a two week shorter growing period and are cold tolerant.¹³
 - RL is a contributing partner in the Rice Breeding and Grain Quality Partnership.
 - Collaboration continues with CSIRO, Universities, and the NSW Department of Primary Industries amongst others, for product and process development research.
- iv. Buyer of last resort and track record of good returns.
 - A condition of the Sole and Exclusive Export Licence agreement between RL and the Board, is that RL be the buyer of last resort. This provides certainty for growers that their NSW crop will be sold if it is of merchantable quality.
 - RL has an unbroken record of paying the indicated returns, or better, to growers on or before scheduled payment dates.

¹¹ Ibid, p. 11.

¹² Ricegrowers Limited, SEEL Annual Review Response, September 2016, Commercial-in-Confidence, p. 19.

¹³ Ricegrowers Limited Annual Report 2016, p. 20.

- v. Operating a transparent pool and regularly updating growers on price trends and payment dates.
- vi. Regularly exceeding pool price expectations.
- vii. Financing of crop at competitive interest rates.
 - RL does not profit from forward finance arrangements as happens in other industries and it currently underwrites these financial arrangements.
- viii. Provision of rice storage.
 - Paddy storage is provided by RL through its subsidiary, Australian Grain Storage Pty Ltd.
- ix. Pure Seed production and supply to rice growers.
 - RL operates a quality assured Pure Seed Program to supply registered seed for all commercial rice varieties to growers.
 - Its subsidiary, Rice Research Australia Pty Ltd produces breeder's seed of all varieties for the Pure Seed Program.
- x. Strength of products and related brands to drive ongoing demand.
 - RL 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 as a result of the Murray Darling Basin Plan has had and will continue to have an impact on rice production. RL 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, is adding to the impact.¹⁴

4. Market Position

Rice consumption in Australia is growing, being driven by sales in traditional food service channels such as restaurants and sushi chains, and also by favourable immigration trends. RL's Australian rice is the market leader in the Australian retail sector.

There has been no material change in the business segments of Ricegrowers Limited during 2015-16.

¹⁴ Ricegrowers Limited, SEEL Annual Review response, September 2016, Commercial-in-Confidence, page 15.

5. Financial Performance of RL¹⁵

Overall, the RL financial statements reflect a continued strengthening in financial position over the 12 month period to 30 April 2016. RL had a strong trading year, milling and marketing the 2015 crop of 693,000 tonnes. Growers received \$403.60 per tonne for medium grain Reiziq, an increase of 2.3% compared to the previous year (2014-15: \$394.62).

i. Income Statement

- Revenue from continuing operations totaled \$1.27 billion in 2015-16, an increase of 1.9% on 2014-15 (2014-15: \$1.25 billion).
- Expenses increased, particularly raw materials reflecting higher costs of paddy.
- Net Profit After Tax was \$52million (2014-15: \$49.2million), an increase of 5.8%.
- Results by segment indicate all segments were profitable in 2015-16.
- Dividend paid to B Class shareholders was 33 cents per B class shareholder, an increase of 6.5% (2014-15: 31 cents).
- Earnings per share was 88.0 cents in 2015-16 compared to 77.9 cents in the prior year.

ii. Balance Sheet

- Net Assets were \$390million in 2015-16, an increase of \$26million (2014-15: \$364million).
- Retained earnings increased to \$254million in 2015-16, from \$219million in 2014-15.
- Current Ratio (current assets to current liabilities) fell to 1.5 (1.6 in 2014-15).
- Debt to Equity (external financing to all sources of capital) was 46.6%, up slightly from 43.9% in 2014-15.
- Gearing percentage (debt to debt plus equity) was 31.8% compared to 30.5% for 2014-15.
- Return on capital of 15.1% in 2015-16 was down slightly compared to the prior year (2014-15: 15.8%).

iii. Cash Flow

- RL's net cash increased by \$61million during the 2015-16 year (2014-15: \$3million reduction).

iv. Other relevant financial matters for the year to 30 April 2016.

- Net debt has increased as a percentage of current earnings. The increase in gearing was due to higher net working capital, including higher international inventory levels and lower Riverina grower payables due to the smaller crop.
- Debt levels are in line with industry peers.
- RL's currency exposures are managed under its Treasury policy. The company is compliant with the requirements of the policy.

¹⁵ Detailed information is contained in RL's Annual Report April 2016 including audited Financial Statements.

- Capacity to pay growers for paddy: syndicated seasonal borrowing facilities are negotiated on an annual basis to meet grower payments.
- Capacity to pay debt, seasonality of debt, and interest cover: Ability of RL to meet financial commitments is tested regularly. All bank loan covenants have been met.
- Interest rate exposures are managed under RL's Treasury policy. RL is compliant with the requirements of the policy.
- Capital Raisings: RL has not undertaken a capital-raising during the 2015-16 year, and no capital raisings are planned for the immediate future.
- A proposed capital restructure was being considered by the RL Board, to provide opportunities to enable growth. This restructure proposal has been delayed due to a joint venture partner reviewing its arrangements with RL.
- Fixed Asset Management: Capital investments by RL during 2015-16 totaled \$24million (2014-15: \$39million).

6. Changes of Board and senior management personnel of RL

During the 2015-16 year, Mr Ian Glasson was appointed as an independent director following the resignation of Mr Peter Margin. Mr Tom Howard replaced retiring General Manager Grower Services, Mr Mike Hedditch.

Mr Gerard Woods, General Manager CopRice and Australian Grain Storage Pty Ltd, left RL in 2015-16. Ms Alison Salmon joined RL in 2015-16 as General Manager Human Resources.

7. Risk management - competition from other agricultural products

RL monitors competition from other summer and winter crops and focuses on a range of initiatives to make rice production as competitive as possible and to encourage Riverina irrigators to make rice their first choice summer crop.

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.