



The Rice Marketing Board

**11th Annual Report to NSW Rice Growers
For the 2021-22 financial year
October 2022**

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 eleventh 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 financial year 2021-22.

The *Rice Marketing Act 1983* (hereafter referred to as 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. The renewal of that licence in 2022 was dependent on the result of the 2021 Rice Vesting Review conducted by NSW Department of Primary Industries. On 20 April 2022, the Deputy Premier and Minister for Regional NSW Paul Toole and Minister for Agriculture and Western NSW Dugald Saunders announced a five-year extension of the vesting powers of the NSW Rice Marketing Board until 30 June 2027. As a result of that extension, the Board is now in the process of negotiating a new SEEL agreement with SunRice.

Section A of this Report outlines the performance of the Board against its specified objectives while Section B provides an assessment of the performance of SunRice as the SEEL holder, based on independent verification of the export price premium and the freight scale advantage by Syneca Consulting Pty Ltd and other information on the activities of SunRice over the 2021-22 year.

Section A

The Board's performance against its stated objectives

A proclamation by the NSW Governor outlines the objectives of the Board as being:

- 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

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

- operating an authorised buyers' licencing system that is uncomplicated, transparent and that places minimal requirements upon new entrants;
- meeting with Authorised Buyers when opportunities present and whenever they request to meet;
- reviewing Authorised Buyers' annual returns;
- undertaking annual audits of the NSW rice crop to ensure compliance with the *Act*; and
- by providing information to rice growers and buyers.

There are currently 14 Authorised Buyers with licences to trade NSW rice domestically. To date the Board has issued licences to all parties who have applied and met the requirements to be an Authorised Buyer.

Competition within the domestic market also occurs as a consequence of the fact that Australia is one of the few countries in the world that does not apply quotas, tariffs or any other form of trade restriction on the importation of rice.

To ensure the best possible returns on rice sold outside Australia, the Board again commissioned a report which has independently verified the 2021-22 export price premium and freight scale advantage as calculated by the SEEL holder, SunRice. The export price premium is a measure of the financial benefits to the majority of NSW rice growers based on the difference between the price achieved by the SEEL holder and the benchmark for competitor prices in each overseas market. The freight scale advantage is the measure of savings achieved as a result of the volumes of exports shipped overseas.

The Board's assessment of the SEEL holder's performance is also informed by regular, formal interactions with SunRice's Chair and/or CEO about the Company's operations and circumstances and its review of SunRice's annual business performance.

Throughout 2021-22, the Members of the Board **liaised with NSW rice growers** by:

- attending the Ricegrowers' Association of Australia (RGA) Central Executive meetings and branch meetings and via regular dialogue with the President and Executive Director of the Association;
- attending regional rice meetings and field days;
- sponsoring the RGA annual conference;

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

- attending key SunRice activities involving growers;
- providing information, via the Board’s website, Annual Report and updates and the submission of articles for inclusion in the RGA newsletter;
- interceding on behalf of rice growers in Northern NSW on seed supply issues; and
- inviting all NSW rice growers to the Board's Annual Meeting held in November.

In addition to the range of activities indicated above, the Board also invested time during 2021-22 to the review of Vesting being conducted jointly by the NSW Department of Primary Industries (DPI) and the NSW Productivity Commission; this investment involved meetings with DPI and the Productivity Commission and the RGA (Central Executive and Branch meetings). It also involved the lodgement of a Board submission recommending a continuation of vesting.

Section B

Summary of SunRice’s Performance as SEEL Holder

The 2021-22 crop, at 683,525 tonnes, is a 63% increase in tonnes delivered compared to crop year 2020-21. SunRice acquired approximately 99.7% of the 2021-22 NSW rice harvest. Increased water allocations and improved seasonal conditions were again driving factors of this increase.²

SunRice milled and marketed the 2020-21 rice harvest of approximately 419,000 tonnes during 2021-22. As a result of the higher production, NSW-grown rice was again directed back into more of SunRice’s international markets. In the preceding years of low production, SunRice had only directed Australian rice into its most premium of markets, relying on internationally-sourced rice to maintain its position in those other overseas markets.

Independent verification of the 2021-22 Export Price Premium

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 crop year ending 30 April 2022.³ The verification process was divided into the following 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.⁴

The main finding from the verification work was that:

“...the approach and methodology adopted by SunRice in the comparison of prices for NSW grown rice with benchmark competitor prices is sound and based on valid assumptions. The resulting estimates provide realistic measures of the gains to NSW rice growers from the SEEL to the extent that the underlying assumption of this approach is

² SunRice Group Annual Report 2022, p. 4

³ SunRice's financial year is from 1 May 2021 to 30 April 2022.

⁴ Syneca Consulting Pty Ltd. 'Verification of calculations of the export price premium and freight scale advantage – crop year 2021' report, 2022, Commercial-in-confidence, p.vi

valid: namely that the benchmark competitor price is a valid proxy for what would occur in the absence of the SEEL”⁵

Syneca noted that international rice markets hardly fit the classic idealised market model for a number of reasons: The rice ‘product’ is not homogenous. There are a range of varieties for rice, there is quality differentiation as well as less substitution driven by strong cultural preferences which is responded to by growers and traders... A number of governments adopt policies of interventions in rice markets around the world.⁶

Assessment of SunRice in relation to stated objectives

SunRice was able to deliver NSW rice growers an export price premium for the 2021-22 year of \$22.2million (cf 2020-21 \$5.0million). The major causes of the variances in premiums achieved between growing seasons appears to be climatic conditions, and hence the quantity of NSW rice available to export, as well as other complex market factors.⁷

The freight scale advantage that SunRice achieved as a result of exporting in volume, during 2021-22, was \$2.81million (compared to \$0.3million in 2020-21) – The increase in aggregate savings is largely due to the very low tonnages last year, though the average saving of \$19.61 per tonne of rice exported is also well above the figure of \$14.64 per tonne in the previous time period.⁸

Whilst tonnages of Australian rice available for export increased in 2021-22, the company did contend with a number of key challenges including:⁹

- the ongoing disruption to global supply chains
- continued uncertainty caused by the COVID-19 pandemic, including disruptions to the shipping industry
- inflationary pressures and the volatility of foreign exchange
- impacts of the Ukraine conflict.

Of note are the variances in regional generation of rice pool revenue between 2021-22 and the prior year: Australia 34% (2020-21 78%), Middle East 40% (2020-21 13%), Asia 24% (2020-21 4%), and other countries 2% (2020-21 5% including Pacific Islands 2%).¹⁰

While the export price premium and freight scale advantages are the primary benefits that accrue to NSW rice growers under the SEEL, **there are other benefits to NSW rice growers** that result from the scale of SunRice’s operations, such as, but not limited to, the operation of the Pure Seed Scheme; high rates of utilisation of infrastructure, and ‘buyer of last resort’ provisions. The ability of SunRice to flex its international supply chains, and hence secure its export market positions, tangibly demonstrates further benefits of scale.

⁵ Syneca 2022 p iv

⁶ Syneca 2022, p.2

⁷ Syneca 2022, p. iii

⁸ Syneca 2022, p. iv

⁹ SunRice Group Annual Report 2022, p.6 and p.12

¹⁰ SunRice Group Annual Report 2022 p. 19 and SunRice Annual Report 2021 p. 19

Financial Performance of SunRice¹¹

Growers can obtain detailed information about SunRice's financial performance during 2021-22 from the company's annual report and statements to the ASX. The Board notes, in particular, the following aspects pertaining to SunRice's financial performance in 2021-22:

- Net Profit After Tax was \$48.7million (2020-21: \$18.3million), an increase of 167%.
- Dividend paid to B-Class shareholders was 40 cents (2020-21: 33 cents).
- Earnings per share were 77.2 cents in 2021-22 (2020-21: 34.6 cents).
- Shareholder funds (total equity) increased: \$505 million (2020-21: \$461million).
- Gearing ratio increased: 28% (2020-21: 24%).
- Net debt increased: \$198million (2020-21: \$148million).

Changes of Board of SunRice¹²

As a result of a review of performance in 2019, the SunRice Board recommended a staged reduction in board directors from 11 to 9. In 2021-22 the first stage to reduce Board Directors from 11 to 10 was undertaken by reducing the number of RMB appointed dual directors from 3 to 2 at the SunRice General Meeting in June 2022. Gillian Kirkup stepped down from the board in December 2021, having served since 2005. John Bradford and Ian Mason were reappointed to the SunRice Board after re-election to the Rice Marketing Board in February 2022 for a further 4 years.

Conclusion

The Board considers that, in relation to its objects:

- it continues to deliver against the objectives of the *Rice Marketing Act 1983*, to the benefit of all NSW rice growers;
- its administration of the SEEL, and the appointment of Ricegrowers Limited, trading as SunRice, to operate this licence, continues to result in both export price premiums and freight scale advantages and also to deliver substantial secondary benefits to rice growers; and
- it continues to liaise with growers to understand and secure their interests.

¹¹ The information in this section is taken from SunRice Group Annual Report 2022, including the audited Financial Statements.

¹² SunRice Group Annual Report 2022 page 58