



The Rice Marketing Board

FOR THE STATE OF
NEW SOUTH WALES

**4th Annual Report to NSW Rice Growers
October 2015**

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 (“RMB”).

The Act outlines the objectives of the RMB as to:

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

Section A of this document reports on the performance of RMB against these objectives while Section B provides an assessment of the performance of the Sole and Exclusive Export Licence (“SEEL”) holder.

This report covers the period from October 2014 (the date of the previous report) to October 2015.

Section A

RMB Performance Measured 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 nine 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 RMB has commissioned a report which has independently verified the export price premium as calculated by the SEEL holder Ricegrowers Limited (“RL”). On the basis of the information provided by RL, the independent verification report and its own observations, the RMB 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 12 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;
- Providing information on the RMB website, including Annual Reports, regular news updates, Authorised Buyers contact details, Capital Equity Rollover Scheme rules, RMB policies;
- Communicating with the President and Executive Director of the RGA on issues relevant to the industry;
- Providing regular articles in the RGA newsletter, "Rice Matters";
- Inviting all NSW rice growers to the Annual Meeting held every November; and
- Being available to all growers, through its sole employee, the Board Secretary.

Section B

Summary of Ricegrowers Limited's Performance as SEEL Holder

(a) Independent Verification Report of the 2014-15 Export Price Premium

Grant Thornton Australia Ltd again performed an independent review of the export price premium for the year ending 30 April 2015. Based on the findings of this review, and its own monthly review of RL's operational and financial results and position, the RMB finds that RL as the holder of the SEEL, continues to deliver substantial benefits to NSW rice growers.

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

The assessment period covers the RL financial year from 1 May 2014 to 30 April 2015.

The Grant Thornton review highlights the following:

- An export price premium delivered to growers of \$82.4 million;
- The average medium grain export prices achieved by RL have been greater than those achieved by Californian exporters for the majority of the past four crop years (see graph on page 5);
- Positive trends generally in key markets and market share;
- Paddy price premium includes efficiency scale advantage;



- Freight scale advantage of \$14.3 million (2013-14: \$18.5 million) delivered to growers, in addition to the export price premium;
- 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 \$1.25 billion (up 8.3% on 2013-14);
 - o Net Profit After Tax (NPAT) of \$49.2 million (up 46.8% on 2013-14); and
 - o Debt to equity of 43.9% (up from 43.6% in 2013-14).

(b) Assessment of Ricegrowers Limited in relation to stated objectives

1. Delivery of export price premiums to NSW rice growers

- i. Amount of export price premium for 2014-15 year

Ricegrowers Limited, as the current holder of the SEEL, reported the delivery of an export price premium of \$82.4 million for the 2014-15 year.

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 (PNG and Solomon Islands), the Middle East, World Trade Organisation (WTO) Markets, 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.

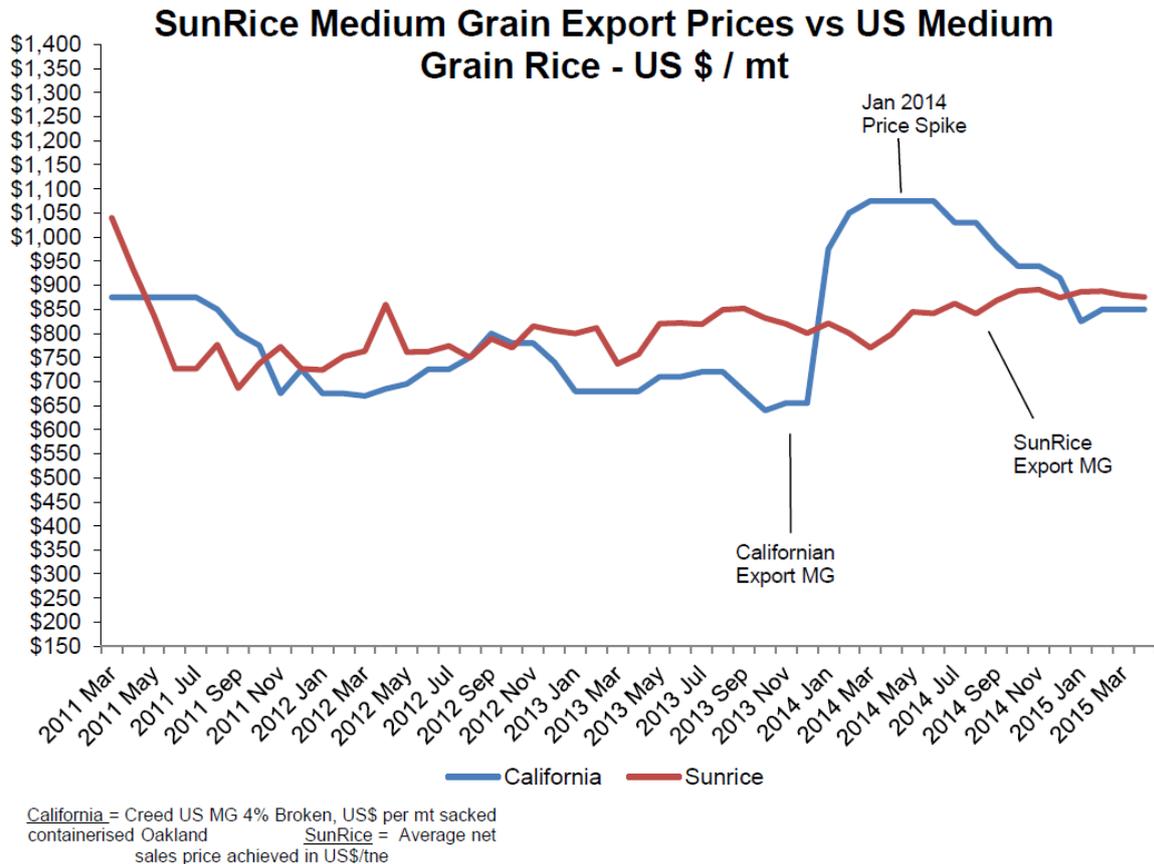
While the reported 2014-15 export price premium of \$82.4 million has decreased from the 2013-14 premium of \$95.2 million, the premium per tonne has increased significantly to \$99.40 per tonne based on the 2014-15 rice crop production of 829,000 tonnes (2013-14: \$82 per tonne). Grant Thornton Australia Ltd stated in its verification report of 17 August 2015 that the per tonne increase was due to an increase in the Papua New Guinea premium, because of the exclusion of rice brokens from the market, and also an increase in the United Arab Emirates and Lebanon selling prices.¹

¹ Grant Thornton Australia Ltd, 2015 Verification Report, Commercial-in-Confidence, page 22



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

The following graph displays the four year trend of the average FOB price achieved by RL in export markets (for AU Rice exported) compared to the average FOB Creed price. Medium grain continues to sell at a significant premium to long grain on the world's market.



Note:

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.

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

Due to brand strength, RL remains the dominant market player in the Pacific region. Cheaply-priced rice from Asia, however, has made inroads into Ricegrowers Limited's traditional markets. A loyal customer base, quick reliable shipping routes and established warehousing contribute to this market dominance. In the Middle East, rice is the staple food and the SunWhite brand holds a premium in the market and experienced increased sales due to marketing activity although competition from cheap Egyptian rice remains a threat. Even though the WTO markets of Japan,



South Korea and Taiwan continue to be constrained by quotas, sales in those markets increased over the prior year.²

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 has provided a summary³ of freight scale by region, detailing a total freight scale advantage of \$14.3 million (2013-14: \$18.5 million). 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 17 August 2015 that “*this is the only practical way of estimating the savings given smaller scale competitor rates are confidential*”⁴.

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 RMB on its milling capacity management. Current New South Wales milling capacity on a 24/7 basis is 880,000 tonnes. With the placement of Coleambally Mill into a care and maintenance program during the year, milling capacity has reduced from a previous 1,175,000 tonnes. This represents a theoretical utilization of 78.4% of New South Wales milling capacity, based on the C15 crop size of 693,000 paddy tonnes.

² Ricegrowers Limited, SEEL Annual Review Response, September 2015, Commercial-in-Confidence, pages 4-13

³ Ricegrowers Limited, SEEL Annual Review Response, September 2015, Commercial-in-Confidence, page 20.

⁴ Grant Thornton Australia Limited, 2015 Verification Report, Commercial-in-Confidence, page 11.



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. Development of a new variety called Topaz has been launched to assist to meet this need.
 - 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 \$70.7million in 2014-15 represents a 30.7% increase on 2013-14 profit and an increase of 82.3% since 2011-12.

- iii. Contribution to Research and Development.
 - RL is a contributing partner in the Rice Breeding and Grain Quality Partnership.
 - Collaboration continues with CSIRO, Universities, and NSW Department of Primary Industries amongst others, for product and process development research.
 - RL continues to provide significant funding for rice research and development and hosts a considerable part of this research through its subsidiary, Rice Research Australia Pty Ltd.

- iv. Buyer of last resort and track record of good returns.
 - A condition of the Sole and Exclusive Export Licence agreement between RL and RMB, 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.

- 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 (reviewed by RMB in 2011-12) 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

An increasing percentage of water entitlement in the Murray and Murrumbidgee Valleys is now held by the Commonwealth Water Entitlement Holder resulting from entitlement purchase under the Murray Darling Basin Plan ("MDBP"). In the rice growing regions, more than 20% of water entitlement is owned by the Commonwealth Government. There is expected to be a slowdown in water entitlement purchases under the MDBP as a result of several initiatives including the cap on water buybacks at 1,500GL.

Reduced water entitlement 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.⁵ Additional competition for water from other crops, such as cotton, is adding to the impact.

Analysis by RL indicates that average crop size is unlikely to exceed long term average production of 800,000 tonnes. RL has achieved significant year on year growth in demand across all market segments and to meet this demand, now requires 950,000 to 1,050,000 tonnes.

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. In overseas markets, RL has dominance in the Pacific Islands, Papua New Guinea and the Solomon Islands.

There has been no material change in the business segments of Ricegrowers Limited during CY14.

5. Financial Performance of RL⁶

Overall, the RL financial statements reflect a continued strengthening in financial position over the 12 month period to 30 April 2015. It had a strong trading year, milling and marketing the 2014 crop of 829,000 tonnes. Growers received \$394.62 per tonne for medium grain Reiziq, an increase of 34.4% compared to the previous year (\$293.61), which represented an increase of \$120 million in the annual grower return.

- i. Income Statement
 - o Revenue from continuing operations totalled \$1.25 billion this year, an increase of 8.2% on 2013-14. Expenses increased reflecting the higher paddy price paid to growers.
 - o Net Profit After Tax of \$49.2 million (2013-14: \$33.5 million) with Earnings Per Share (B class shareholders) of 77.9 cents per share (53.3 cents per share in 2013-14).
 - o Results by segment indicate all segments were profitable in 2014-15.

⁵ Ricegrowers Limited, SEEL Annual Review response, September 2015, Commercial-in-Confidence, page 15.

⁶ Detailed information is contained in RL's Annual Report April 2015 including audited Financial Statements



- Interest Cover fell to 4.07 times (4.5 times in 2013-14).
- ii. Balance Sheet
- Net Assets of \$364 million, an increase of \$40 million.
 - Retained earnings increased to \$219 million from \$191 million in 2013-14.
 - Current Ratio (current assets to current liabilities) fell to 1.6 (1.7 in 2013-14).
 - Gearing percentage (debt/equity) was 43.9% (up slightly on 43.6% in 2013-14).
 - Return on capital improved to 15.8% (14.1% in 2013-14).
- iii. Cash Flow
- RL's net cash decreased by \$3 million during the 2014-15 year (2013-14: 72.1 million reduction, of which \$138 million related to decreasing debt).
- iv. Other relevant financial matters for the year to 30 April 2015.
- Net debt is reducing as a percentage of current earnings.
 - Debt levels have been well maintained.
 - RL'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: 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 six monthly. 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 2014-15 year, and no capital raisings are planned for the immediate future. A proposed capital restructure is currently being considered by the RL Board, to provide opportunities to enable growth.
 - Fixed Asset Management: Capital investments by RL during 2014-15 totalled \$39 million (2013-14: \$32 million). Coleambally Mill was impaired at a cost of \$2 million.

6. Changes of Board and senior management personnel of RL

During the 2014-15 year, the RL Board Chairman Mr Gerry Lawson retired, and Mr Laurie Arthur was appointed. Independent RL Board member Peter



Margin resigned. In August 2015 Dr Leigh Vial was elected to the RL Board, replacing Mr Alan Walsh. Mr John Bradford also joined the RL Board in late August 2015, following his election to the RMB.

Ms Simone Anderson replaced Mr Steven Ray as General Manager, Operations during 2014-15. Ms Jo Blackwell, General Manager, People and Performance left RL in 2014-15.

7. Risk management - competition from other agricultural products

RL monitors competition from other summer and winter crops on an annual basis. It is focusing 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. RL believes that rice production will continue to receive support from producers in southern NSW.

RL has purchased a rice mill in Queensland and is expanding production to provide another source of Australian grown rice. This investment is designed to complement the existing rice supply from the Riverina region of NSW. The focus of the investment is on specialty rice varieties, which have historically been difficult to grow in the Riverina.

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

