



# The Rice Marketing Board

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FOR THE STATE OF  
NEW SOUTH WALES

**Report to NSW Rice Growers  
June 2013**

## Introduction

The *Rice Marketing Act 1983* (the Act) directs that all rice produced in NSW be vested in the Rice Marketing Board for the State of NSW (RMB).

The Act outlines the objectives of RMB to:

- (a) encourage the development of a competitive domestic market for rice.
- (b) ensure the best possible returns from rice sold outside Australia based on the quality differentials or attributes of Australian rice.
- (c) 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.

## Section A

### RMB Performance Against Stated Objectives

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

- I. There are currently 8 licenced Authorised Buyers, with another application currently under consideration
- II. The Secretary and the Chairman visited rice growers in Northern NSW to obtain an update on the issues and challenges in growing rice in this area.
- III. The Board has issued licences to all parties who have applied for an Authorised Buyer's licence and have met the required conditions.

#### **(b) Ensuring the best possible returns on rice sold outside Australia:**

The continued strong performance of the holder of the Sole and Exclusive Export Licence ("SEEL") is fundamental to achieving this objective.

The RMB has concluded Ricegrowers Limited ("RL"), as the holder of the SEEL, continues to provide an export price premium together with a number of other substantial benefits to NSW rice growers.

It is noted the average annual running costs of \$500,000 for the Rice Marketing Board do not materially diminish this return to 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:**

- a. Attendance at the Ricegrowers' Association of Australia (RGA) half yearly branch meetings
- b. Sponsorship of, and attendance at, the RGA Annual Conference.
- c. Attendance at the NSW Trade and Investment public meetings held in relation to the Review of the Rice Vesting Proclamation
- d. Distribution of the RMB Annual Report and its availability on the website
- e. Communication with the President and Executive Director of the RGA on issues relevant to the industry
- f. Making itself available to all growers, through the Secretary, at other times

## **Section B**

### **Summary of Ricegrowers Ltd Performance as SEEL Holder**

#### **Background**

In 2010 a review of the NSW Rice Marketing Act 1983 (the Act) was undertaken by Integrated Marketing Communications Pty Limited. The review was undertaken pursuant to section 165 of the Act which required the NSW Minister for Primary Industries to review the Act by the end of 2010.

While the review found that the policy objectives of the Act remained valid, it nevertheless found the Rice Marketing Board and its sole and exclusive export licence agent, Ricegrowers Limited ('RL'), were likely to face an increasingly challenging operating environment, particularly in relation to future water availability.

The review found that this likelihood warranted a higher level of performance monitoring of RL, to assist the Board and growers make well informed assessments of the net benefits of the single desk in a future production environment constrained by water access.

Specifically, the review recommended that to maximise the Board's performance and ongoing viability, it develop business performance metrics to track and analyse RL's current and projected financial position and export market premiums.

The following section reports on RL's performance to 30 April 2012.

#### **Summary**

- Export price premium delivered to growers of \$40.3 million
- The average medium grain export prices achieved by SunRice have been greater than those achieved by Californian exporters for the majority of the past three crop years.
- Positive trend in key markets and market share



- Paddy price premium includes freight scale advantage
- Paddy price premium includes efficiency scale advantage
- SEEL holder delivers secondary benefits to growers e.g. ability to respond to changes in market conditions, product research and development, buyer of last resort, certainty of sale and payment, crop finance, rice crop insurance, provision of storage and purity of seed.
- Strengthening financial performance of SEEL holder, including:
  - o Revenues of 1 billion (up 23.6% on 2011)
  - o NPAT of \$33.9 million (up 158.9% on 2011)
  - o Debt to equity 65.9% (down from 102.4% in 2011)

## Findings

An independent review was undertaken by Grant Thornton Corporate Finance Limited of the Export Price Premium methodology, calculations and source information. Based on this review, The Rice Marketing Board finds that RL continued to deliver an export price premium to growers. This conclusion, however, recognises the limitations of a number of markets where competitor pricing information is not readily available.

RMB also confirms the existence of other advantages to growers, such as freight scale advantage, as a result of RL holding the Sole and Exclusive Export Licence.

Assessment Period:

- I. Rice sales 2011-12;
- II. Financial reporting of Sole and Exclusive Export Licence ('SEEL') Holder from 1 May 2011 to 30 April 2012

## Assessment of Ricegrowers Ltd in relation to stated objectives

### 1. Delivery of Export Price Premium to NSW rice growers

- i. Amount of export price premium for 2011-12 rice crop.

Ricegrowers Limited (RL), as the current holder of the SEEL, reported the delivery of a total **export price premium of \$40.3 million** for the 2011/2012 crop year.

This total premium is the accumulation of premiums achieved in varying amounts, across the five major export regions in which RL markets rice. These markets comprise Pacific (Major Market), Middle East, WTO Markets, New Zealand and Pacific Islands.

The premium achieved in each market region is the difference between the SunRice price per tonne and the benchmark of competitor price per tonne.

Noting that price verification or benchmarking in a global context is limited, given rice is a narrowly traded commodity and unlike other grains has no futures market, an independent review of benchmarks was undertaken by Grant Thornton Corporate Finance Limited for the reported regions.



Grant Thornton concluded in its report of April 2013:

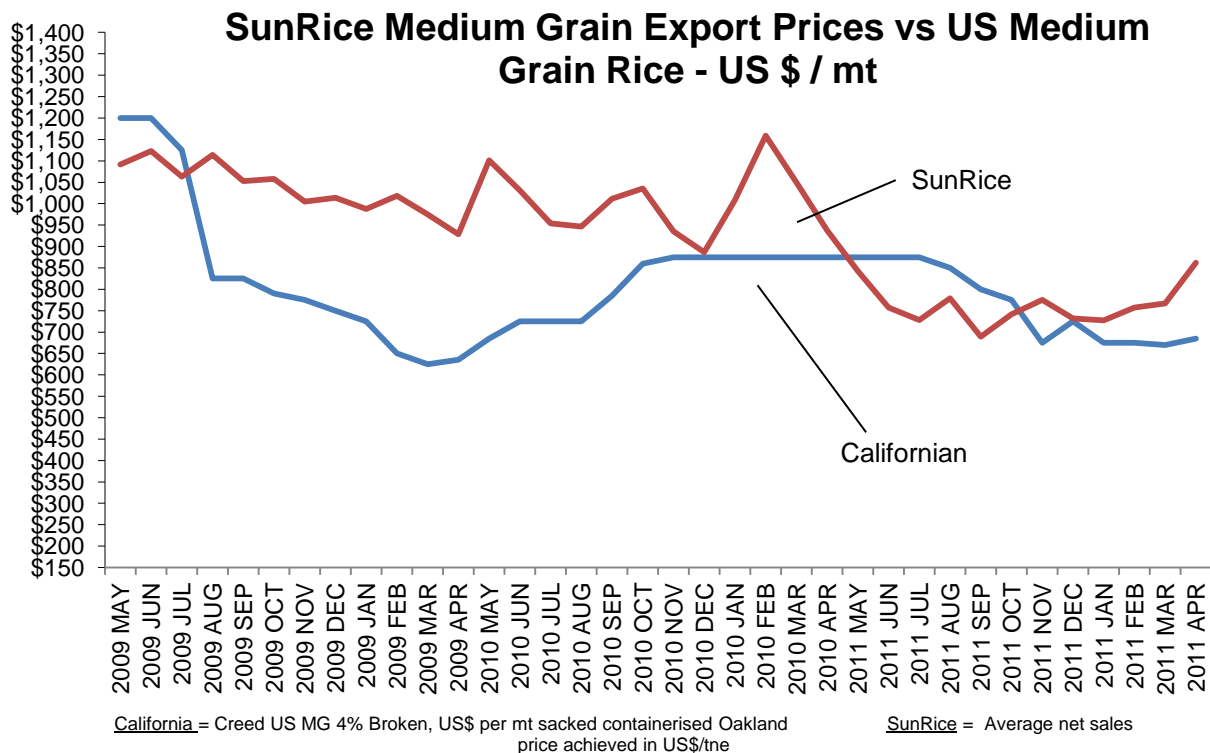
*“The methodology adopted by SunRice to calculate the Export Price Premium is sound and the mathematical calculations are in all material respects appropriate.*

*We have identified a number of limitations which may have a material impact on the accuracy of the assessment of the Export Price Premium. These limitations are due to the lack of publicly available information on competitors’ pricing in each region.”*

This opinion concurs with the statements by RL on the difficulty in obtaining competitor pricing in certain markets. RMB is satisfied RL has demonstrated ‘best efforts’ in obtaining data.

Grant Thornton provided a number of recommendations on further enhancements to the collection of comparative data. These will be supplied to RL in preparation for the next review period (covering 2013/2014), and further independent assessment will be conducted on an annual basis.

- ii. The following graph displays the three year trend of the average FOB price achieved by RL to relevant export markets (for AU finished product Rice exported) compared to the average FOB Creed price for the same period.



Note:

- the year refers to crop years IE 2009 crop, 2010 crop & 2011 crop



- the periods where Californian price exceeds RL’s price reflect the drought-impacted supply of rice out of Australia.

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

The restoration of market share in key markets continues, with production levels returning to pre-drought levels. Of note is the relaxation of the ban on exporting of rice from Egypt with the potential dampening effect on rice prices.

iv. Demonstration of Freight Scale Advantage to Rice Growers

An important contributor to the paddy price premium to growers is in the freight scale advantage obtained by RL through the operation of the SEEL. According to RL,

*‘freight scale advantages arise due to the benefit of delivering scale volumes into export markets and therefore lower delivered costs for NSW rice into export markets.’<sup>1</sup>*

RL has provided a summary<sup>2</sup> of freight scale by region, detailing Total Ocean Freight Scale Advantage. Without the benefits of scale, this freight advantage would be significantly diluted or eliminated.

RL reported that a material freight scale benefit was achieved for the 2011/2012 financial year, based on the amount of finished product rice exported.

The Board of RMB was provided with substantial supporting data. Given the commercial sensitivity of this data, it will not be included in this report. Grant Thornton Corporate Finance Limited undertook a review of the reported freight scale advantage achieved and passed on to rice growers. Grant Thornton reported the freight scale advantage calculations are high level and indicative only.

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 has reported monthly to the RMB as to its capacity management. It is noted that with the recovery in rice production to pre-drought levels and with a 10/11 crop of 800k tonnes, RL re-commissioned its Deniliquin mill. This allowed it to operate close to capacity across its two mills, with its Coleambally mill operating as an overflow mill for peak demand and larger crop sizes.

<sup>1</sup> (pg 21, SEEL Annual Review Response, Dec.2012, Commercial in Confidence)

<sup>2</sup> (pg 21, Table 2, SEEL Annual Review Response, Dec.2012, Commercial in Confidence)



Assuming a return to 1 million tonnes production and the continuous 12 month operations of Coleambally mill in 2013, RL mills will operate at around 90% capacity. (Note: This excludes the US milling operation.)

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

- Demonstrated ability to respond to changes in conditions and continue to operate profitably.
  - RL successfully maintained business and infrastructure during the Millennium Drought, whilst remaining profitable
  - RL successfully managed extreme crop sizes, with paddy tonnes delivered ranging from 1.7 million in crop year 2001 to 19,000 in crop year 2008.
  - RL strategies enabled the successful re-commissioning of mills post drought to process higher rice crops
- Contribution to Research & Development
  - Collaboration continues with CSIRO, Universities and NSW DPI, amongst others, for product research to meet existing and future market needs
  - 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
- Buyer of Last Resort continues to be a condition of the Sole and Exclusive Licence agreement between RL and RMB, providing certainty for growers.
- RL delivered a certainty of sale contract and continued its track record of good returns
  - Operated a transparent pool and regularly updating growers on price trends and payment dates.
  - Regularly exceeded pool price predictions
  - RL paid indicative returns, or better, to growers on or before the scheduled payment dates.
- RL provided financing of crops at competitive interest rates
  - RL does not profit from forward finance arrangements.
  - RL currently underwrites these financial arrangements.



- Provision of rice storage.
  - Paddy storage is provided by RL through its subsidiary, Australian Grain Storage Ltd
- Purity of seed through extensive quality assurance program.
  - 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.
- Strong brand presence
  - The strength of products and related brands drive ongoing demand which ensures shelf space and prime locations.

### **3. Impact of changes in the availability of water**

- a. RL's assessment, taking into account the uncertainty surrounding the methodology for implementation of the Murray-Darling Basin Plan (the Basin Plan), is that its current planning base of 800k tonnes is not jeopardised by the Basin Plan.
- b. RMB will continue to monitor the roll-out of the Basin Plan and its potential impact on rice production.

### **4. Market Position of SEEL holder**

- c. There was significant recovery in RL's market share in its key markets post drought, as evidence by sales volumes
- d. Investment in brands and product innovation continues, evident in presence at major supermarkets and other retail outlets, with such brands as SunRice, Riviana, Always Fresh, and Coprice.

### **5. Financial Performance and Reporting of RL<sup>3</sup>**

The Board of RMB considered the capacity to pay growers and long term viability as part of its review of RL as a suitable holder of the SEEL. The financial statements reflect a strengthening in financial position over the 12 month period.

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<sup>3</sup> Detailed information is contained in SunRice Annual Report April 2012 including audited Financial Statements



### *Income Statement*

- a. Revenue from continuing operations exceeded \$1billion for the first time. This was due to a combination of recovery from drought and higher prices achieved in markets due to firmer pricing.
- b. Expenses increased reflecting greater activity associated with increased volumes but also higher costs of material inputs.
- c. NPAT of \$33.9 million with EPS (B class shareholders) of 57.3 cents per share (23.3 cents per share in 2011).
- d. Results by segment indicate all segments profitable.
- e. Interest Cover 4.1 times, a significant improvement on prior year of 1.7 times.
- f. Dividend Payout Ratio (dividends as a % of profit attributed to RL Shareholders) 32% (78% in 2011).

### *Balance Sheet*

- a. Net Assets of \$292.9 million, an increase of \$27.4million.
- b. Retained earnings increased to \$152 million from \$130 million in 2010/11.
- c. Liquidity Ratio (current ratio + available debt) 2.7, an improvement on prior years.
- d. Acid Ratio (cash + receivables + investments) over current liabilities - an improvement on prior years.
- e. Current Ratio (current assets to current liabilities) 1.9, an improvement on prior years.
- f. Debt to Equity (external financing to all sources of capital) 65.9%, down significantly from 102.4% as at 30 April 2011, as a consequence of, amongst other items, improved trading performance and reductions in working capital.
- g. Return on Average Equity (NOPAT to average total equity) of 47%, up on prior years.
- h. Return on Average Assets (EBIT to average total assets) 10%, up on prior year.

### *Cash Flow*

- a. The RL group generated \$100m net cashflow from operating activities. It reduced its net debt during the 2011/12 financial year by \$79m.



*Other relevant financial matters for the period*

- a. Currency management is governed by board-approved policies. A statement of compliance with this policy is provided on an annual basis (15 July).
- b. Compliance with all Bank covenants: stated compliance provided is supported by various banks' ongoing provision of banking facilities.
- c. Capacity to pay growers for paddy: syndicated seasonal borrowing facilities are negotiated on an annual basis to meet grower payments
- d. Capacity to pay debt, seasonality of debt, and interest cover: ability to meet RL's financial commitments tested six monthly. As noted above, all covenants met.
- e. Interest rate management: as for currency management, governed by board policy, with statement of compliance annually (15 July)

**6. Changes in the members of the Board and senior management of RL**

RMB notes the following movement in RL Board and management composition:

- The replacement of Chief Executive Officer.
- Retirement of one external director and a replacement joining the Board
- Election of a grower director replacing another grower
- Appointments of two senior general managers in areas of human resources and operations.

**7. Material impact or changes in competition from other agricultural products**

- a. RMB notes that rice as a commodity continues to hold a competitive position and diversification option for farmers.

## 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 Ltd to operate this licence, results in price premiums and 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.

