

## The History of the RMB's Capital Equity Schemes

During the 1950s and 1960's the rice industry in New South Wales grew rapidly. In 1948-49, 51,000 tons of rice was harvested. Twelve years later, the crop had doubled to 112,718 tons (1961). Seven years later, 217,300 tons were harvested (1968). At this time, the Rice Marketing Board for the State of New South Wales (the Board) was responsible for receipt and storage of paddy, arranging finance and payment of a paddy price to rice growers, sale of rice to millers, setting prices for overseas markets, and distribution of the Board's profits to growers.

In the late 1950's, the Board required finance to invest in the construction and maintenance of rice storage facilities in New South Wales. The Capital Equity Redemption Fund, later replaced by the Capital Equity Rollover Scheme, was devised to obtain funding for capital works from rice growers, who invested in their own industry and obtained the benefit of superior storage facilities.

### The Capital Equity Redemption Fund 1961-1997

In 1957 the Board negotiated with the Bank of New South Wales to apply for a limit increase in their Capital Account of £250,000. The only way the Board could fund Capital Works on their rice storage sheds was through bank loans. As the bank was constrained by Government restrictions in other than short term funding, the Chief Inspector of the Bank suggested levying growers for additional capital requirements. The Board noted that the *Marketing of Primary Products Act 1927/1945* did not permit the levying of growers, but it agreed to investigate the possibility of entering into financial arrangements with growers "in order to give them a holding in growing Board assets".<sup>1</sup>

A Sub-Committee of the Board comprising the Chairman Mr Noel Hogan, Board member Mr M.S.C. Emery and Board Manager Mr C.E. Dalton, was created in August 1958. On 14 October 1958, the Committee recommended to the Board that growers subscribe 2/- per paddy tonne over two years. Equity Certificates were to be issued and growers leaving the industry could redeem their shares from a "Redemption Fund". The Board approved the recommendation and informed the Auditor General and the Director of Marketing and Agricultural Economics, NSW Department of Agriculture. The rules of the Equity Fund were finalised with the Board's solicitors Cater & Dalton, and on 1st June 1960, the Board met and agreed that the Rules be sent to the Minister for approval.<sup>2</sup>

Deductions from crop proceeds to fund the storage assets were retrospective to 1954 crops. The Chairman's report covering finalisation of the 1961 Rice Pool indicated that Equity Certificates totalled £386,000 that year.

---

<sup>1</sup> Minutes of Ordinary Board Meeting held at Leeton on Thursday 31st January 1957.

<sup>2</sup> Minutes of Board meetings 1957 to 1960

## Ceilings

In 1965, four years after commencement of the Fund, the Board introduced the first changes. Equity Certificates covering the crop pools from 1954 to 1960 were to be redeemed when the industry was in a position to finance this redemption. Each rice growing farm was allotted an Equity Fund "Ceiling" based on the estimated cost of storing the average production of the average grower.

The Ceiling represented a limit on the amount a grower was required to contribute. The calculation was:

- the normal annual rice acreage for the farm,
- multiplied by the average yield in the area in which that farm is situated,
- multiplied by \$20, being the capital cost per ton to the Board of storing an average crop.

This Ceiling was divided between the owner and sharefarmer where applicable in the same proportions as the proceeds were shared. Growers whose holdings exceeded their respective Ceilings were to have no further deductions made for storage but growers were to have no right of redemption back to the Ceilings. This is explained in the Chairman's Report covering the 1965 rice pool, where the new rules were outlined:

"It may happen that a grower has a ceiling of say \$1000 and a holding of \$990. His deduction from proceeds may be \$100. It is intended that the full deduction be made and his holding remain \$90 in excess of his ceiling. This method is intended to simplify the operation of the scheme - indeed it would be impracticable otherwise."<sup>3</sup>

By the 1980's the Ceiling calculation had been amended to:

- the maximum approved or declared maximum area for a farm,
- multiplied by the average yield in tonnes per hectare over the past three years in the region in which that farm is situated, calculated each three years,
- multiplied by a cost factor, which was based on the cost of building one tonne of storage in particular years.<sup>4</sup>

In 1965 the cost factor was \$22.64 and by 1979 that amount had risen to \$80.

## Redemption rules for the Fund

Central to the Fund was the concept that a grower would be able to redeem the funds contributed. The Fund Rules stated that Equity Certificates issued in respect of the 1954-1960 Crop Pools may be redeemed either in whole or in part at any time at the discretion of the Board. Equity Certificates issued after 1960 could be redeemed at any time, as decided by the Board after the expiration of two years from the date of issue, or when a person no longer met the definition of "Grower" as defined in the Rules.<sup>5</sup>

---

<sup>3</sup> Chairman's Report covering finalisation of the 1965 Rice Pool, page 7.

<sup>4</sup> Capital Equity Redemption Fund Rules, 1980, Rule 8, Page 4.

<sup>5</sup> Capital Equity Redemption Fund Rules, 1980, Rule 9, Page 7.

### The closure of the Capital Equity Redemption Fund 1997

The Capital Equity Redemption Fund ceased receiving contributions after the 1987 Crop deduction and in July 1988 the Board commenced repaying 10% of growers' contributions from the Board's Capital Equity Redemption Fund each year. The 1997 Annual Report states that \$38.7 million was repaid to growers by the conclusion of the Capital Equity Redemption Fund.<sup>6</sup>

### The Capital Equity Rollover Scheme 1993 - 2016

Commencing with the 1993 crop, the Board implemented a new policy to fund its capital works program. The Board resolved to minimise any large increases in the level of deductions and to spread the cost of new storages and improvements over a number of years so that current growers were not burdened with the total capital costs in any one year. Grower contributions would be set at a "per tonne" amount each year, and repaid after ten years as a "rollover" payment.<sup>7</sup>

The redemption rules were also changed, and growers who had permanently left the industry and who had disposed of their farms became eligible to redeem their contributions made to the "New Scheme" provided they had attained the age of sixty-five years.<sup>8</sup>

The Board also arranged a finance facility with its bankers, the interest of which was funded by a deduction each year from growers. The \$4 per tonne deduction for the 1993 crop was allocated as \$3 per tonne to the Equity Scheme for capital and redemption payments and \$1 per tonne applied against the interest on the bank borrowings. For 1995, the deduction was \$8 per tonne with \$7 for capital works and \$1 for interest. For 1996, the amount was \$10 per tonne.<sup>9</sup>

The Board announced in its 1996 annual report that it had set a maximum amount of \$10 per tonne Equity deduction from any one crop pool. The report states:

"The Board believes that it is better for it to borrow at more attractive rates not available to individual growers to top up the funding requirements to provide the necessary additional storage facilities and thus spread the capital cost to growers over a number of years than to increase the level of Equity deduction to finance new storages in one year to approximately \$15-\$18 per tonne."<sup>10</sup>

In 1997, ten years after the New Scheme commenced, the Board made its first rollover payment when it repaid contributions of \$2,745,334 on 29 July 1998.

---

<sup>6</sup> The Rice Marketing Board for the State of New South Wales Annual Report for the year ended 30th June 1997, page 7.

<sup>7</sup> The Rice Marketing Board for the State of New South Wales Annual Report for the year ended 30th June 1997, page 8.

<sup>8</sup> The Rice Marketing Board for the State of New South Wales Annual Report for the year ended 30th June 1994, page 7.

<sup>9</sup> The Rice Marketing Board for the State of New South Wales Annual Reports, 1993 to 1997.

<sup>10</sup> The Rice Marketing Board for the State of New South Wales Annual Report for the year ended 30th June 1996, page 6.

In 1999, the Board increased the crop proceeds deduction from \$10 to \$12 per tonne. Improved harvesting equipment combined with the use of larger transport vehicles required an increase in the rate of receipt of the crop at the storage facilities. At the 1998 Annual General Meeting of the Board, growers strongly recommended that the contribution to the Board's Scheme be increased by \$2 per tonne to pay for increased storage and receipt facilities.<sup>11</sup>

The rate varied depending on capital projects planned. For the 2001 crop, the rate increased to \$14 per tonne, and in 2006, the final year of the New Scheme, the rate was \$8 per tonne.

By 2006, early redemption was only possible at the Board's discretion, if the grower met all of the following criteria:

- Notified the Board by statutory declaration that he/she no longer came within the definition of "Grower" as defined by the rules;
- Was a natural person over sixty-five years of age;
- Had no further interests in any rice crop pools;
- Had sold or assigned his/her interest in and, unless the Board agrees otherwise, had vacated the farm on which he/she grew rice;
- Satisfied the Board's requirements in establishing these facts; and
- Returned the Equity Certificate.<sup>12</sup>

### Conversion to SunRice shares 2008

Ricegrowers Limited made an offer to holders of Equity Certificates to convert future repayments of Equity into Ricegrowers Limited shares, or a combination of shares and cash, in 2008. Seven hundred and seventy four certificate holders accepted the conversion offer at \$31 million, leaving the Board's Equity liability at \$37 million.<sup>13</sup>

### Storage Facilities

At the end of the 2000 harvest, the Board owned 1,062,490 tonnes of static storage, of which 102,000 tonnes were unaerated dry paddy storage sheds. Additionally the Board had 52,000 tonnes of minimum aerated storage on long-term leases.<sup>14</sup> A list of storage sheds funded by the Capital Equity Schemes as at 2003 is provided at Appendix 1 to this report.

The Board was constantly striving for new innovations. In the 1997 Annual Report, the Chairman's Address included this statement:

"Before any new storages are built, further investigation and evaluation of new storage methods being practiced in the United States will be undertaken. A task force from the Board, including Board members and Engineering staff from

---

<sup>11</sup> The Rice Marketing Board for the State of New South Wales Annual Report for the year ended 30th June 1999, page 7.

<sup>12</sup> Capital Equity Rollover Scheme Rules, Rule 9.

<sup>13</sup> The Rice Marketing Board for the State of New South Wales Annual Report for the year ended 30th June 2009, page 29.

<sup>14</sup> The Rice Marketing Board for the State of New South Wales Annual Report for the year ended 30th June 2000, page 4.

Ricegrowers Co-operative Limited, has spent some time over the last 12 months looking at new methods. Basically, the Americans now integrate column driers with storage silos. Paddy is received and passed through the driers a number of times to reduce moisture before being finally stored. This type of drying and storage appears to have a number of advantages over our current method, particularly the effect on whole grain milling yields. Early indications are that there appears to be some large cost savings in this type of structure."<sup>15</sup>

Long term capital program planning became integral as the rice industry expanded. In 1999 the Board commissioned a review of its long-term requirements for storage and receipt of rice. The planning level agreed by the Board was for an average crop size of 1,400,000 tonnes and in 2001, the Chairman announced that a further 102,000 tonnes of storage at a cost of \$25-30 million was planned. A total of \$72 million was spent on storage and receipt facilities over the three years to 2002, with total storage at 1,311,000 tonnes.<sup>16</sup>

By 30 June 2006, immediately prior to the storage facilities being sold, the depreciated value of the Board's property, plant and equipment was \$123,944,000. The original cost of those assets was \$195,332,000.

#### Sale of the storage facilities 2006

In November 2005, the *Rice Marketing Act 1983* was amended and consequently the domestic rice market was de-regulated on 1 July 2006. At the request of growers, the Board sold its storage assets to Riviana Australia Pty Ltd, (later named Australian Grain Storage Pty Ltd), a subsidiary of Ricegrowers Limited.

At its meeting on 22 February 2006, the Board noted that at all seven NSW branch meetings of the Ricegrowers Association of Australia, motions were passed giving clear direction that Ricegrowers Limited take over the storage assets of the Board. The Board minuted the following statement:

"To ensure that ownership reflects the contributions of the current equity holders and in the spirit of the original intention of the Equity Rollover Scheme to fund the purchase and construction of the storage facilities, it was resolved that as a result of the deregulation of the domestic rice market that the Board seek legal advice on how it can best go about unwinding and restructuring its storage asset ownership to ensure that they are retained by the current Equity holders".<sup>17</sup>

An Asset Sale Deed was signed on 30 June 2006, transferring ownership to Riviana Australia Pty Ltd. The Deed arranged for Riviana Australia Pty Ltd to repay the Board's loan facility, provide the Board with payments equal to the amount of the Equity Rollover payment each July as they fell due, and to reimburse the Board for any early equity redemptions.

---

<sup>15</sup> The Rice Marketing Board for the State of New South Wales Annual Report for the year ended 30th June 1997, page 7.

<sup>16</sup> The Rice Marketing Board for the State of New South Wales Annual Report for the year ended 30th June 2002, page 5.

<sup>17</sup> Minutes of the Rice Marketing Board, 22 February 2006.

The purchase price was \$126 million, comprising:

- \$30,365,000 novation of interest bearing liabilities to Riviana Australia Pty Ltd;
- \$95,894,000 repayment amounts to be paid annually, including a maximum of \$4,167,000 early redemption amount.

### Conclusion

The Capital Equity Redemption Fund and the Capital Equity Rollover Scheme provided growers with a means of ownership of the storage assets of the rice industry while also allowing the Board to obtain the capital funding that it needed to grow the industry.

Gerry Lawson, Board member from 1985 to 2015 and Board Chairman from 1987 to 2001, summarised the Scheme well:

"The Capital Equity Rollover Scheme is a unique scheme whereby growers finance the industry's receival and storage infrastructure, ensuring that the industry remains rice producer owned. Funds are contributed on a per tonne basis, according to production. The rate of deduction per tonne is the same for all growers. New growers into the industry are not penalised for being able to enter the industry and utilise the assets built up by previous growers. However, unlike growers who have been in the industry for a number of years, new growers do not get any repayment of their contributions until they have been in the industry for 10 years. The scheme is clearly production based. Therefore, the higher the production from individual growers, the higher the contribution towards infrastructure. As repayment of contributions is not made until after 10 years, and all funds are invested in storage facilities, the scheme relies upon future production for ongoing security."<sup>18</sup>

---

<sup>18</sup> The Rice Marketing Board for the State of New South Wales Annual Report for the year ended 30th June 2000, page 6.

## Appendix 1 - Rice Storage sheds as at 2003

DISTRICT	STORAGE FACILITIES OWNED BY RMB AT 2003	YEAR BUILT
MIA	Whitton Shed 1	1959
MV West	Burraboi Storage Shed 3	1959
MV West	Caldwell Storage Shed 1 (owned RCL in 2003)	1959
MV East	Deniliquin Storage shed 2	1959
MIA	Benerembah Shed 1	1960
MV East	Deniliquin Storage shed 12	1960
MIA	Willbriggie Shed 1	1961
MIA	Griffith Shed 4	1962
MIA	Griffith Shed 5	1962
MIA	Benerembah Shed 2	1964
MIA	Gogeldrie Shed 1	1964
MIA	Whitton Shed 4	1964
MIA	Whitton Shed 3	1965
CIA	Emery Shed 1	1965
MV West	Burraboi Storage Shed 4	1965
MIA	Leeton Shed 2 and transshipping facility	1966
MIA	Whitton Shed 5	1966
CIA	Coleambally Storage shed 1 (owned RCL in 2003)	1966
MIA	Murrami Shed 1	1967
MIA	Whitton Shed 2	1967
MIA	Yenda Shed 2	1967
MV West	Caldwell Storage Shed 2 (owned RCL in 2003)	1967
MIA	Gogeldrie Shed 2	1968
CIA	Emery Shed 2	1968
MV East	Deniliquin Storage shed 3 (owned RCL in 2003)	1968
MV West	Moulamein Shed 1	1968
CIA	Coleambally Storage shed 2	1969
CIA	Emery Shed 3	1969
MV East	Deniliquin Storage shed 4	1969
MV East	Hogan Shed 1	1969
MV East	Deniliquin Storage shed 6	1970
MV West	Burraboi Storage Shed 5	1970
CIA	Walsh Shed 2	1972
MV West	Caldwell Storage Shed 3	1972
MIA	Gogeldrie Shed 3	1973
MIA	Yenda Shed 3	1973
MV East	Deniliquin Storage shed 5	1973
MV West	Moulamein Shed 2	1973
MIA	Benerembah Shed 3	1974
CIA	Coleambally Storage shed 3	1974
CIA	Coleambally Storage shed 4	1974
CIA	Emery Shed 4	1974
MV East	Hogan Shed 2	1974
MV West	Burraboi Storage Shed 6	1974
MIA	Whitton Shed 6	1975

MV East	Blighty Shed 1	1975
MV East	Deniliquin Storage shed 14	1975
MIA	Yenda Shed 4	1976
CIA	Coleambally Storage shed 5	1977
MV West	Caldwell Storage Shed 4	1977
MIA	Griffith Shed 3	1978
MIA	Whitton Shed 10	1978
MV East	Blighty Shed 2	1978
MIA	Benerembah Shed 4	1979
MV East	Deniliquin Storage shed 1	1979
MV West	Burraboi Storage Shed 10	1979
MV East	Finley Shed 1	1980
CIA	Emery Shed 5	1981
MV East	Hogan Shed 3	1981
MV West	Moulamein Shed 3	1981
MIA	Willbriggie Shed 2	1982
MIA	Murrami Shed 2	1983
MV East	Finley Shed 2	1983
MIA	Yenda Shed 5	1984
MV East	Deniliquin Storage shed 10	1992
MV East	Deniliquin Storage shed 11	1992
MIA	Yenda Shed 6	1994
MV West	Burraboi Storage Shed 1	1994
MV East	Finley Shed 3	1995
MV West	Hay Shed 1	1995
CIA	Walsh Shed 3	1996
MIA	Benerembah Shed 5	1997
MV East	Deniliquin Storage shed 13	1997
MIA	Whitton Weighbridge	1998
MIA	Gogeldrie Shed 5	1999
MIA	Whitton Seed Grading Plant	1999
MV East	Deniliquin Storage shed 15	1999
MIA	Gogeldrie Shed 4	2000
CIA	Coleambally Storage shed 10	2000
CIA	Coleambally Storage shed 11	2000
MV East	Deniliquin Storage shed 16	2000
MV West	Moulamein Shed 4	2000
MIA	Willbriggie Shed 3	2001
CIA	Emery Shed 6	2001
MV East	Deniliquin Storage shed 17	2001
MV West	Burraboi Storage Shed 11	2001
CIA	Coleambally Storage shed 6	2002
CIA	Emery Shed 10	2002
MV East	Deniliquin Storage shed 18	2002
MV East	Finley Shed 4	2002
MV West	Hay Shed 2	2002