



The Rice Marketing Board

FOR THE STATE OF
NEW SOUTH WALES

**6th Annual Report to NSW Rice Growers
October 2017**

Introduction

The Rice Marketing Board for the State of NSW (the Board) is pleased to present the sixth 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).

The *Rice Marketing Act 1983* (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 rice within Australia, as well as one export licence, the SEEL, currently held by Ricegrowers Limited trading as SunRice (SunRice).

A Proclamation by the NSW Governor 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 SunRice as the SEEL holder.

Section A

The Board's performance against its 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 eleven 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

The Board again commissioned a report which has independently verified the 2016-17 export price premium as calculated by the SEEL holder SunRice. On the basis of the information provided by SunRice, the independent verification report and its own observations, the Board has concluded that

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

SunRice, and the sole exclusive export arrangements, continue to provide the best possible 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;
- Attending the RGA Rice Leaders Forum in August 2017;
- Sponsoring two Northern Rivers rice growers to attend the Rice Field Day in March 2017;
- 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 SunRice's Performance as SEEL Holder

Despite a significantly reduced crop size and difficult international market conditions in 2016-17, SunRice performed well. An export price premium of \$26.4million was achieved equating to \$108 per tonne, and growers received \$415 per tonne for medium grain Reiziq.

(a) Independent verification of the 2016-17 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 2017.² Based on the findings of this review, and its own monthly review of SunRice's operational and financial results and position, the Board finds that SunRice 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 SunRice holding the SEEL.

The Grant Thornton review highlights the following:

- An export price premium delivered to growers of \$26.4million, down from \$70.7million in the previous year;³

² SunRice's financial year is from 1 May 2016 to 30 April 2017.

³ Grant Thornton Australia Ltd. Verification of the export price premium and freight scale advantage report, 2017, Commercial-in-confidence, p. 7.

- The average medium grain export prices achieved by SunRice have been greater than those achieved by the average Creed Report⁴ prices for the majority of the past three crop years (see graph on page 39);
- Declining trends generally in key markets and market share;
- Paddy price premium includes efficiency scale advantage;
- Freight scale advantage of \$2.45million (2015-16: \$9.2million) delivered to growers, in addition to the export price premium;⁵
- SunRice 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 \$1.1billion (\$1.3billion in 2015-16); and
 - o Net Profit After Tax (NPAT) of \$34.2million (\$52million in 2015-16).

(b) Assessment of SunRice in relation to stated objectives

1. Delivery of export price premiums to NSW rice growers

i. Value of export price premium for 2016-17 year

An export price premium of \$26.4million for the 2016-17 year (2015-16: \$70.7million) was achieved by SunRice as the current holder of the SEEL.⁶ Despite a smaller Australian crop and a decline in market share, SunRice was still able to deliver an export price premium equal to \$108 per tonne (2015-16: \$102 per tonne) to Australian growers in 2016-17.

The export price premium is calculated for each of the five major export regions in which SunRice operates. 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 SunRice sale price, less the average weighted local competitor sale price, multiplied by the volume sold.

Grant Thornton Australia Ltd stated in its verification report that the total premium has decreased due to a decline in export volumes derived from the lower Australian crop yields and the continued release of cheaper rice blends in some export markets, coupled with government pricing policy.

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

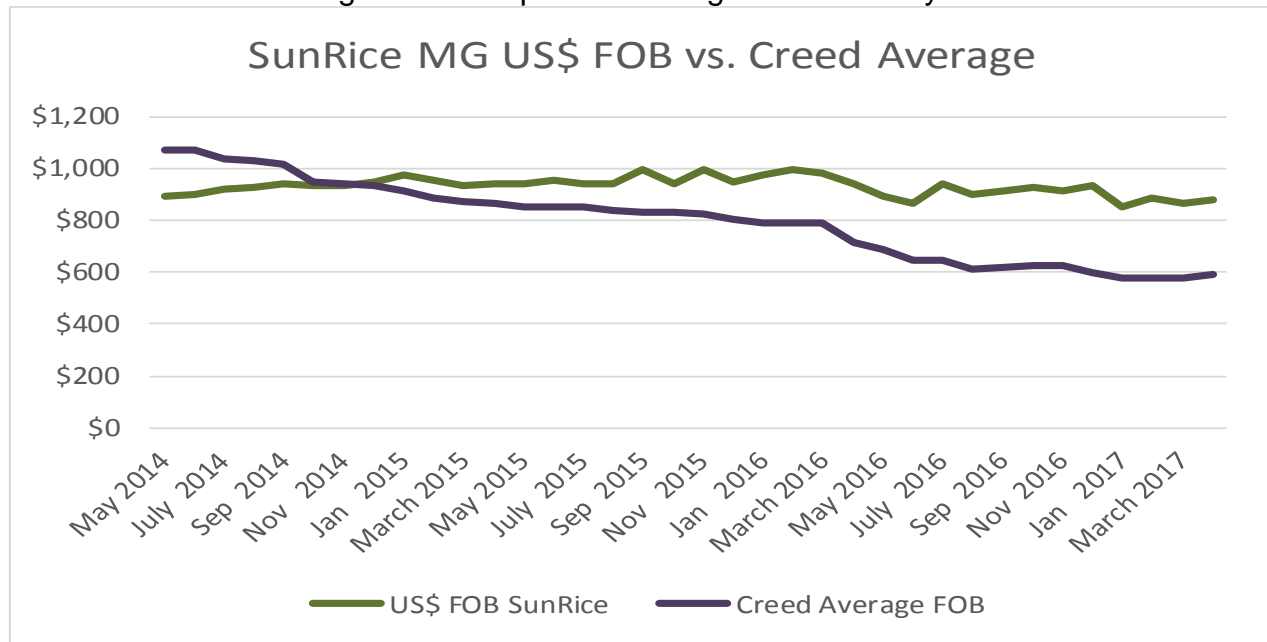
The following graph displays the three year trend of the average FOB price achieved by SunRice Medium Grain rice in export markets (for exported Australian rice) compared to the average FOB

⁴ The Creed Rice Co is a USA rice brokerage firm that negotiates rice transactions in export and US domestic markets.

⁵ Ibid, p. 11.

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

Creed Report medium grain price⁷. The graph shows that SunRice medium grain has consistently traded above the average Creed Report medium grain since early 2015.⁸



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

Due to brand strength, SunRice remained the dominant market player in the Pacific region and the Middle East. The Papua New Guinea market was significantly impacted by that country's economy with revenue for the SunRice subsidiary Trukai Industries down 26%.⁹ Overall however, SunRice's International Rice revenue declined by only 2% due to increased global trading volumes and a return to profitability for SunRice's USA subsidiary, SunFoods.¹⁰

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.

SunRice produced a total freight scale advantage of \$2.45million (2015-16: \$9.2million) in 2016-17, which equates to \$10.05 per tonne (2014-15: \$13.33 per tonne).¹¹ 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 SunRice of the freight scale advantage was estimated based on discount ranges/indications of the volume discounts provided by five freight companies, and is not based on a

⁷ Ricegrowers Limited, SEEL Annual Review Response, September 2017, Commercial-in-Confidence, pp.4-13.

⁸ The early 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.

⁹ Ricegrowers Limited Annual Report 2017, p. 16.

¹⁰ Ibid p. 15

¹¹ Grant Thornton Australia Ltd, Op. Cit., p. 7.

specific analysis of actual discounts received. Grant Thornton stated in its verification report that “*this is the only practical way of estimating the savings given smaller scale competitors rates are confidential*”.¹²

v. Demonstration of the Advantages of Scale to Rice Growers

A component of the paddy price for rice grown in NSW and purchased by SunRice is derived from the degree of efficiency in rice-milling. SunRice 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% based on the 2016-17 crop size of 244,000 tonnes. The 2017-18 crop of 800,000 tonnes saw a theoretical return to milling capacity of 91%.¹³

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
 - SunRice’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, SunRice 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 corporate strategy, SunRice has seen the demand for products increase significantly over the past few years.
 - Net profit before income tax was \$40million in 2016-17, a 45% reduction in profit compared to 2015-16.¹⁴ This was achieved despite a drop in Australian rice production of 65%.
- iii. Contribution to Research and Development
 - SunRice 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 showing potential for double cropping opportunities.¹⁵
 - SunRice 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 SEEL agreement between SunRice and the Board, is that SunRice be the buyer of last resort. This provides certainty for growers that their NSW crop will be sold if it is of merchantable quality.

¹² Ibid, p. 11.

¹³ Ricegrowers Limited, SEEL Annual Review Response, September 2017, Commercial-in-Confidence, p. 18.

¹⁴ Ricegrowers Limited Annual Report 2017, p. 62

¹⁵ Ricegrowers Limited Annual Report 2017, p. 11.

- SunRice 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
 - SunRice 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 SunRice through its subsidiary, Australian Grain Storage Pty Ltd.
- ix. Pure Seed production and supply to rice growers
 - SunRice 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 breeders' seed of all varieties for the Pure Seed Program.
- x. Strength of products and related brands to drive ongoing demand
 - SunRice 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. SunRice 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. ¹⁶

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. SunRice's Australian rice is the market leader in the Australian retail sector.

¹⁶ Ricegrowers Limited, SEEL Annual Review response, September 2017, Commercial-in-Confidence, pp 13-14.

There has been no material change in the business segments of SunRice during 2016-17.

5. Financial Performance of SunRice¹⁷

The SunRice financial statements reflect a difficult 2016-17 year, caused by low crop volumes coupled with low medium grain rice prices and increased overseas supplies as global paddy production and stockpiles reached record levels. Despite these hurdles, SunRice delivered a net profit after tax of \$40million and growers received \$415 per tonne for medium grain Reiziq, an increase of 2.8% compared to the previous year (2015-16: \$403.60).

i. Income Statement

- Revenue from continuing operations totaled \$1.11billion in 2016-17 (2015-16: \$1.27billion),
- Expenses decreased, in line with lower Australian production,
- Net Profit After Tax was \$34million (2016-17: \$52million), a decrease of 34%,
- Results by segment indicate all segments were profitable in 2016-17,
- Dividend paid to B Class shareholders was 33 cents per B class shareholder, (2015-16: 33 cents),
- Earnings per share was 61.3 cents in 2016-17 compared to 88 cents in the prior year,
- Return on Capital Employed was 10.3% (2015-16: 15.1%).

ii. Balance Sheet

- Net Assets were \$405million in 2016-17, an increase of \$15million (2015-16: \$390million),
- Retained earnings increased to \$270million, from \$254million in 2015-16,
- Current Ratio (current assets to current liabilities) increased to 1.9 (1.5 in 2015-16),
- Gearing percentage (debt to debt plus equity) was 17% compared to 32% for 2015-16,
- Return on capital of 10.3% in 2016-17 was down compared to the prior year (2015-16: 15.1%).

iii. Cash Flow

- SunRice's net cash decreased by \$65million during the 2016-17 year (2015-16: \$50million increase).

iv. Other relevant financial matters for the year to 30 April 2017

- Total liabilities have reduced from \$580million in 2015-16 to \$406million in 2016-17
- Debt levels are in line with industry peers

¹⁷ Detailed information is contained in RL's Annual Report April 2017 including audited Financial Statements.

- SunRice'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 SunRice to meet financial commitments is tested regularly. All bank loan covenants have been met.
- Interest rate exposures are managed under SunRice's Treasury policy. SunRice is compliant with the requirements of the policy.
- Capital Raisings: SunRice did not undertake a capital-raising during the 2016-17 year. A Dividend Re-investment Plan allowing B-class shareholders to elect for the payment of their dividend in B class shares occurred after year end.
- A proposed capital restructure was being considered by the SunRice Board in 2015-16 but has been put on hold.
- Fixed Asset Management: Capital investments by SunRice during 2016-17 totaled \$22million (2015-16: \$24million).
- SunRice subsidiary Riviana Foods acquired Fehlbergs Fine Foods during 2016-17 at a cost of \$2.6million.

6. Changes of Board and senior management personnel of SunRice

During the 2016-17 year, there were no changes to the SunRice Board. Mr Milton Bazley, General Manager, International Commodity left SunRice in 2016-17, and Mr Peter McKinney joined as General Manager, CopRice.

7. Risk management - competition from other agricultural products

SunRice 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.