



The Rice Marketing Board

FOR THE STATE OF
NEW SOUTH WALES

**9th Annual Report to NSW Rice Growers
For the 2019-20 financial year
March 2021**

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 ninth 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 2019-20.

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 current proclamation of vesting ends on 30 June 2022 and the NSW Government has commenced its latest review of the vesting arrangement.

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).

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 and 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 12 licensed Authorised Buyers and 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 2019-20 export price premium and freight scale advantage as calculated by the SEEL holder, SunRice. The Board's assessment of the SEEL Holder's performance is also informed by regular discussion with SunRice's Chair and/or CEO about the Company's operations and circumstances and its review of SunRice's annual business performance. The Board's assessment of the SEEL Holder's performance is also informed by regular discussion with SunRice's Chair and/or CEO about the Company's operations and circumstances and its review of SunRice's annual business performance.

Throughout 2019-20, the Members of the Board **liaised with NSW rice growers** by:

- attendance at 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;
- attendance at regional rice meetings and field days;
- co-sponsoring the RGA Annual Conference, the Rice Industry Leadership Program and the Rice Industry Awards;
- attendance at key SunRice activities involving growers;
- provision of information, via the Board's website, Annual Report and updates, and the submission of articles for inclusion in the RGA newsletter, "Rice Matters";

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

- 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).

Section B

Summary of SunRice's Performance as SEEL Holder

The 2019-20 crop, at 46,000 tonnes, was the second smallest crop on record and SunRice acquired approximately 97% of the crop. To encourage production in a year of low water availability and high water prices, SunRice offered growers higher than normal prices though fixed price contracts ranging from \$500/tonne to \$1,350/tonne.²

In the face of such a small NSW rice crop, SunRice directed NSW-grown rice into premium markets only and relied on internationally-sourced rice to maintain its position in other markets.

Independent verification of the 2019-20 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 year ending 30 April 2020.³ 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

Syneca observed what rice traders have long known - international rice markets do not fit the classic economic model where market forces are expected to deliver enhanced economic outcomes. There is no global rice market and various government interventions including tariffs, quotas and world trade obligations mean that rice is not freely-traded. Rice is also a non-homogenous product with strong preferences in individual cultures for different varieties of rice.

Assessment of SunRice in relation to stated objectives

Under very difficult circumstances, SunRice was able to deliver NSW rice growers an export price premium for 2019-20 year of \$27.0million (cf 2018-19 \$25.8million); and a Freight Scale Advantage of \$2.41million (cf 2018-19: \$4.39million).

In addition to the very small volume of rice grown in NSW, SunRice also had to contend with rising global rice prices and unfavourable foreign exchange fluctuations throughout 2019-20. However, SunRice brands retained their market leading positions in the Middle

² Riceworkers Limited 2020 Annual Report, p. 21

³ SunRice's financial year is from 1 May 2019 to 30 April 2020.

⁴ Syneca Consulting Pty Ltd. 'Verification of calculations of the export price premium and freight scale advantage – crop year 2019' report, 2021, Commercial-in-confidence, p.9

East and 12 Pacific Island markets, including the Solomon Islands and Papua New Guinea. The Pacific markets however suffered deteriorating economic conditions and SunRice faced aggressive competitor pricing strategies.

SunRice's NSW rice pool revenue was generated in the Middle East (26%), Asia (8%), the Pacific countries (2%) and 11% in other markets; the remaining 53% was generated within Australia.⁵

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. However, the benefit of scale was more tangibly demonstrated, under some of the most difficult trading conditions ever faced by SunRice (and by default NSW rice growers), by the way in which the company was able to secure rice from international sources and thereby secure its export market positions.

Financial Performance of SunRice⁶

Growers can obtain detailed information about SunRice's financial performance during 2019-20 in 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 2019-20:

- Net Profit After Tax was \$22.7million (2018-19: \$32.8million), a decrease of 31%.
- Dividend paid to B-Class shareholders was 33 cents (2018-19: 33 cents).
- Earnings per share were 45.8 cents in 2019-20 (2018-19: 54.5 cents).
- Shareholder funds (total equity) increased: \$481million (2018-19: \$463million).
- Gearing ratio decreased: 15% (2018-19: 19%).
- Net debt decreased: \$82.6million (2018-19: \$110million).

Changes of Board of SunRice

Directors Glen Andreazza and Mark Robertson retired in August 2019; Laurie Arthur and Leigh Vial were re-elected and Jeremy Morton and Julian Zanatta were elected at SunRice's 2019 Annual General Meeting.

⁵ Ibid

⁶ The information in this section is taken from Ricegrowers Limited's Annual Report 2020, including the audited Financial Statements.

Conclusion

The Board appreciates that 2019-20 was an exceedingly difficult year for NSW rice growers and the rice industry as a whole. Growing conditions and export circumstances will never be assured; however, the biggest challenge facing the NSW rice industry is that of reduced access to water under the Murray-Darling Basin Plan and the associated impacts fall most heavily on General Security water licence holders. In the drier than normal conditions that prevailed throughout the Riverina in 2019-20, water allocations were insufficient for most rice growers to plant a crop. Additional competition in the temporary water market, from those with permanent plantings and High Security water requirements who were also buying General Security water, further discouraged rice growing.

Notwithstanding the many challenges associated with season 2019-20, the Board considers that:

- 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 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.