



The Rice Marketing Board for the State of NSW

**12th Annual Operational Report to NSW Rice Growers
For the 2022-23 Financial Year
October 2023**

A report to New South Wales rice growers on the performance of the Board against its objects and on the performance of SunRice as the holder of the Sole and Exclusive Export Licence.

1. The Year in Review

The Rice Marketing Board for the State of NSW (the Board) presents this twelfth annual report to New South Wales rice growers on its performance against our stated objects (Section 2), and on the performance of SunRice as the holder of the Sole and Exclusive Export Licence (SEEL) (Section 3). This report covers the financial year 2022-23 and should be read in conjunction with our Annual Report, which will be available on the RMB website once it has been tabled in Parliament.

Board Changes

In August 2022 the Board farewelled the Chair, John Culleton, after 10 years of service and welcomed two new nominated Board Members, Donna Rygate and Rowan McMonnies.

2023 SEEL, Verification and Market Analysis

In June 2023 a new SEEL was signed with Ricegrowers Ltd (trading as SunRice), aligning the SEEL with the end of the current vesting period at 30 June 2027. A new verification consultant, Sapere, confirmed an Export Price Premium (EPP) of \$39.4 million (2021-22 \$22.2 million) and a Freight Scale Advantage (FSA) of \$19.3M (\$2.81 million in 2021-22) was achieved through the operation of the SEEL.

The Board also engaged Sapere to perform an analysis of the international rice market. This review analysed the economics and market dynamics of international rice trade and how the SEEL allows the EPP and FSA to be realised. Sapere highlighted that the world rice market is not like other agricultural commodity markets, in that it is characterised by a low number of buyers and sellers (often governments), with a volatile pricing as a result. Global rice trade is also highly segmented by variety, degree of processing and degree of milling resulting in many smaller, mostly unrelated rice markets, where prices and supply have little impact on each other. Taking into account the unique nature of the global rice market, domestic deregulation of the rice industry and the benefits delivered by the SEEL, Sapere found the case for removal of the SEEL, on the basis of competition policy, was weak relative to other deregulated commodities, and that the removal of the SEEL may have negative welfare impacts for NSW rice growers. These negative impacts would logically extend to the rice workforce and regional communities, due to the high levels of vertical integration within the industry.

ABARES Report on Rice Vesting Arrangements

Another review of rice vesting was commissioned by the Department of Primary Industries during the year and this work was completed by the Australian Bureau of Agricultural and Resource Economics and Sciences (ABARES) in early 2023. The RMB supplied ABARES with relevant documentation and a submission, attended regional review sessions and met with the ABARES project team. Our submission once again highlighted that there are clear benefits of vesting, including the fact that it enables NSW rice growers to compete in an opaque and closed global market whilst achieving an export price premium and freight scale advantage.

The ABARES report is currently being considered by the Minister of Agriculture.

Board Financial Performance

The Board receives no government funding. It sets SEEL and Variable Fees each year with a view to maintaining a break-even budget position and two years of operating expenses in reserve. The Variable Fee for 2022-23 was set at \$0.85/T (down from \$1.75/T in 2021-22) and the Board recorded a surplus of \$115,299.78. Our Auditors determined

that due to the Board's reserves policy, the RMB remains a going concern, despite the continuing uncertainty over the NSW Government's response to the ABARES review of vesting.

Equity and Financial Services Exemptions

The Board made the last of its equity payments under the Equity Scheme in October 2022, bringing to an end an important era in the Board's history. The Board's exemption to TD19-01 - Financial Services was also removed during the year meaning the Board could no longer control where its investments were held or use term deposit products. Through negotiation with NSW Treasury the Board was able to access a Westpac Non-Treasury Banking System product which does perform favourably, in terms of return and efficiency, compared to previous methods of investment employed by the Board.

2. The Board's Performance Against its Objects

The Board has three objects, as gazetted on 23 May 2009¹. The Board's performance against these objects is outlined below.

2.1 Encouraging a Competitive Domestic Market for Rice

There are currently 14 Authorised Buyers with licences to trade NSW rice domestically. To date the Board has issued licences to all parties who have applied and met the requirements to be an Authorised Buyer.

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;
- supporting the development of transparency in systems that enable Authorised Buyers to participate in the market, notably through access to seed for all NSW rice growers;
- reviewing Authorised Buyers' annual returns;
- undertaking annual audits of the NSW rice crop to ensure compliance with the *Act*; and
- by providing information to rice growers and buyers.

During 2023, the Board observed the entry of another domestic player in the supply of retail rice products, indicating the potential for domestic competition.

2.2 Ensuring the Best Possible Returns on Rice Sold Outside Australia

Independent verification of the EPP and FSA, confirms that NSW rice growers derive significant value through operation of the SEEL. The EPP is a measure of the financial benefits to the majority of NSW rice growers based on the difference between the price achieved by the SEEL holder and the benchmark for competitor prices in each overseas market. The FSA is the measure of savings achieved as a result of the volumes of exports shipped overseas.

2.3 Liaising with and representing the interests of all NSW Rice Growers in relation to the Board functions and objects

Throughout 2022-23, the Members of the Board liaised with NSW rice growers extensively, for example by:

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

- attending meetings held by the Ricegrowers' Association of Australia (RGA) Central Executive, RGA Branches, RGA Water Policy Committee and via regular dialogue with the President and Executive Director of the Association;
- attending regional rice meetings and field days;
- sponsoring and attending the RGA annual conference;
- attending key SunRice activities involving growers;
- providing information, via the Board's website and Annual Report, and in industry publications;
- addressing issues on behalf of non-supplying rice growers on seed supply issues with SunRice;
- inviting all NSW rice growers to the Board's Annual Meeting held in November; and
- making themselves available for discussion to directly address concerns raised.

The Board also held discussions with representatives of the NSW Department of Primary Industry and the Minister for Agriculture, the Hon. Tara Moriarty MLC.

3. Summary of SunRice's Performance as SEEL Holder

The Board's assessment of SunRice's performance, as the SEEL holder, is informed by the independent verification of the EPP and FSA as well as regular formal interactions with SunRice's Chair and CEO about the company's operations and its review of SunRice's annual business performance.

The 2022-23 crop purchased by SunRice was 499,856 tonnes, and represents approximately 99.4% of the 2022-23 NSW rice harvest.

During 2022-23 SunRice milled and marketed the 2021-22 rice crop and achieved a record naturally determined paddy price of \$461/T. Higher sales volumes of NSW-grown rice were directed into the domestic and international premium markets and new opportunities for participating in international tenders and drought affected markets such as the US were created.²

Independent verification of the 2022-23 Export Price Premium

Sapere performed the independent review of the calculation of the Export Price Premium and Freight Scale Advantage for the crop year ending 30 April 2023.³ The verification process was divided into three steps:

- Assessment of the soundness of the methodology used by SunRice to calculate the Export Price Premium (EPP)
- Verifying the values of inputs that form the basis of the calculations
- Checking the accuracy of the calculations used to derive the EPP.⁴

The overall conclusion was that SunRice's estimates of the EPP and FSA are reasonable and the methodology adopted by SunRice would not result in any material overestimate of the benefit. Both the EPP and FSA estimates represent increases from lower estimates over the past two years, driven by significant increases in volumes of rice exports, and changes in the markets into which SunRice exported.

² SunRice Group Annual Report 2023 p4

³ SunRice's financial year is from 1 May 2022 to 30 April 2023.

⁴ Sapere - Verification of SunRice Export Price Premium and Freight Scale Advantage – Crop Year 22 Commercial-in-confidence, p.7

The verification process confirmed that vesting was able to deliver NSW rice growers an estimated EPP for the 2022-23 year of \$39.4 million (2021-22 \$22.2 million). The current EPP reflects SunRice's ability to extract price premiums through its strong position in each of the markets included in the calculation. For the markets from which the EPP is derived, SunRice's products have the largest market share amongst all brands, and as such, there is a reasonable basis for assuming that SunRice is able to exercise its market power in these markets.⁵

The freight scale advantage achieved as a result of exporting in volume, during 2022-23, was \$19.3M (compared to \$2.81 million in 2021-22). The increase in aggregate savings is largely driven by the combination of two factors:

- A significant increase in the volume of rice exported compared to the previous year (212,984 tonnes in crop year 22 vs. 113,431 tonnes in crop year 21); and
- Falling shipping costs over the crop year.

While the EPP and FSA are the primary benefits that accrue to NSW rice growers under the SEEL, other benefits to NSW rice growers resulting from the scale of operations vesting delivers, include, but are not limited to the operation of the Pure Seed Scheme; high rates of utilisation of infrastructure and 'buyer of last resort' provisions. The ability of the SEEL holder to secure its export market positions, tangibly demonstrates further benefits of scale.

Financial Performance of SunRice⁶

Growers can obtain detailed information about SunRice's financial performance during 2022-23 from 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 2022-23:

- Net Profit After Tax was \$58.4million (2021-22: \$48.7million), an increase of 12%.
- Dividend paid to B-Class shareholders was 50 cents (2021-22: 40 cents).
- Earnings per share was 83.8 cents in 2022-23 (2021-22: 77.2 cents).
- Shareholder funds (total equity) increased to \$556 million: (2021-22: \$505 million).

After assessing the independent verification and consideration of SunRice's performance during the year, the Board resolved at its meeting on 11 September 2023 that SunRice had met the conditions of the SEEL for 2022-23.

Conclusion

The Board continues to improve its operations and processes, has commissioned an independent review on market analysis of the International Rice Sector and has reviewed Board agreements. The renegotiation of the SEEL demonstrated significant advancement during the year. The new SEEL:

- redefines merchantable quality, which increases transparency in relation to SunRice's Buyer of Last Resort obligation;
- strengthens the crop marketing and payment provisions to ensure schemes are non-discriminatory (as well as equitable);
- requires SunRice to make seed available to all NSW Rice Producers on an equitable and non-discriminatory basis;

⁵ Sapere 2023 p 8

⁶ The information in this section is taken from SunRice Group Annual Report 2023, including the audited Financial Statements.

- clarifies the terms for which elected RMB Members are appointed to the SunRice Board;
- requires the SEEL be published on the RMB website; and
- contemporises language and updates for compliance purposes.

Overall, the Board considers that, in relation to its objects for the 2022-23 year:

- it continues to deliver against its objects;
- its administration of the SEEL, and the appointment of Ricegrowers Limited, trading as SunRice, to operate this licence, continues to deliver both export price premiums and freight scale advantages and substantial secondary benefits to rice growers; and
- it continues to work with growers to understand and advance their interests and will continue to do this into the future.