



The Rice Marketing Board

FOR THE STATE OF
NEW SOUTH WALES

**10th Annual Report to NSW Rice Growers
For the 2020-21 financial year
October 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 tenth 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 2020-21.

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 is currently reviewing the vesting arrangement. An announcement on the outcome of the review is expected in March 2022.

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 and other information on the activities of SunRice over the 2020-21 year.

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;
- 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 13 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 2020-21 export price premium and freight scale advantage as calculated by the SEEL holder, SunRice. The export price premium 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 freight scale advantage is the measure of savings achieved as a result of the volumes of exports shipped overseas.

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 also assesses the SEEL Holder's performance through regular discussion with SunRice's Chair and CEO about the Company's operations and circumstances.

Throughout 2020-21, the Members of the Board **liaised with NSW rice growers** by:

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

- attending 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;
- attending regional rice meetings and field days;
- co-sponsoring the Rice Industry Awards²;
- attending key SunRice activities involving growers;
- providing information, via the Board's website, Annual Report and updates and the submission of articles for inclusion in the RGA newsletter;
- 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.

Ordinarily, Members of the Board would have also attended regional rice meetings and field days but they were unable to do so during 2020-21 because the meetings were either cancelled or because of Covid-related travel restrictions.

In addition to the range of activities indicated above, the Board invested a significant amount of time during 2020-21 to the review of Vesting being conducted jointly by the NSW Department of Primary Industries (DPI) and the NSW Productivity Commission; this investment involved meetings with DPI and the Productivity Commission and the RGA (Central Executive and Branch meetings). It also involved the lodgement of a Board submission recommending a continuation of vesting.

Section B

Summary of SunRice's Performance as SEEL Holder

The 2020-21 crop, at 419,220 tonnes, was a significant improvement after two consecutive years of low crops. SunRice acquired approximately 99% of the 2020-21 NSW rice harvest. Increased water allocations and lower water prices were the main reasons for the increased NSW rice harvest along with generally improved seasonal conditions, although the Riverina experienced one of the coolest summers in many years.³

SunRice milled and marketed the 2019-20 rice harvest of approximately 46,000 tonnes during 2020-21. NSW-grown rice was directed into premium international markets and SunRice relied on internationally-sourced rice to maintain its position in other overseas markets.

Independent verification of the 2020-21 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 2021.⁴ The verification process was divided into the following three steps:

- Assessment of the soundness of the methodology adopted by SunRice;

² The RMB normally sponsors the RGA annual Conference however this was cancelled due to Covid-19 restrictions.

³ Ricegrowers Limited 2021 Annual Report, p. 4

⁴ SunRice's financial year is from 1 May 2020 to 30 April 2021.

- Verification of the assumed values of the inputs that go into the calculations; and
- Checking the accuracy of the calculations.⁵

The main finding from the verification work was that the export price premium and freight scale advantage:

“...provide realistic measures of the benefits to NSW rice growers as a result of the current vesting arrangements. The approach and methodology adopted by SunRice in their computations is sound and based on valid assumptions to address unavoidable gaps in data sources and are consistent with the best current understanding of the dynamics of international rice markets.”⁶

Syneca noted that international rice markets “hardly fit the classic idealised market model for a number of reasons: The rice ‘product’ is not homogenous. There are a range of varieties for rice, as well as quality differentiation... A number of governments adopt policies of interventions in rice markets around the world.”⁷

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 the 2020-21 year of \$5.0million (cf 2019-20 \$27million). While there appears to be a very large decrease in the premium compared to the prior year, the crop that SunRice milled and marketed in 2020-21 was harvested in 2019-20 and was limited to 46,000 tonnes. A comparison on a per tonne basis provides a better perspective: in 2020-21 the export price premium achieved was \$242/tonne compared to \$273/tonne in 2019-20.⁸

The freight scale advantage that SunRice achieved as a result of exporting in volume, albeit a very small volume, during 2020-21, was \$335,000 (compared to \$2.41million in 2019-20) – this represented a saving of \$14.64/tonne (compared to \$24.35/tonne in 2019-20).⁹

In addition to the low level of rice production in NSW, SunRice also had to contend with Covid-19 and instability in key global markets.¹⁰ An increase in consumer demand in 2020-21 linked to the Covid-19 pandemic, depleted NSW rice reserves more quickly than anticipated and resulted in SunRice’s NSW mills running on reduced shifts (and therefore sub-optimally). NSW rice pool revenue was generated in Australia and New Zealand (78%), the Middle East (13%), Asia (4%), Pacific Islands (2%) and other countries (3%).¹¹

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,

⁵ Syneca Consulting Pty Ltd. ‘Verification of calculations of the export price premium and freight scale advantage – crop year 2020’ report, 2021, Commercial-in-confidence, p.vii

⁶ Syneca, 2021, p.iv

⁷ Syneca 2021, p.2

⁸ Syneca 2021, p.iii

⁹ Syneca 2021, p.iii

¹⁰ SunRice Annual Report 2020-21, p.14

¹¹ SunRice Annual Report 2020-21, p. 19

under some of the most difficult trading conditions ever faced by SunRice (and by default the majority of 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 SunRice¹²

Growers can obtain detailed information about SunRice's financial performance during 2020-21 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 2020-21:

- Net Profit After Tax was \$18.3million (2020-21: \$22.7million), a decrease of 19%.
- Dividend paid to B-Class shareholders was 33 cents (2019-20: 33 cents).
- Earnings per share were 34.6 cents in 2020-21 (2019-20: 45.8 cents).
- Shareholder funds (total equity) decreased: \$461million (2019-20: \$481million).
- Gearing ratio increased: 24% (2019-20: 15%).
- Net debt increased: \$148million (2019-20: \$82.6million).

Changes of Board of SunRice

There were no changes to the Board of SunRice in 2020-21.

Conclusion

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, trading as SunRice, 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.

¹² The information in this section is taken from Ricegrowers Limited's Annual Report 2021, including the audited Financial Statements.