



RICEGROWERS' ASSOCIATION  
OF AUSTRALIA INC  
SERVING OUR MEMBERS  
FOR 90 YEARS

# **SUBMISSION TO THE REVIEW OF THE RICE VESTING PROCLAMATION**

**August 2021**

## CONTENTS

<b>1. INTRODUCTION .....</b>	<b>2</b>
<b>2. THE RICEGROWERS' ASSOCIATION OF AUSTRALIA.....</b>	<b>2</b>
<b>3. THE NSW RICE INDUSTRY .....</b>	<b>2</b>
<b>4. THE RGA'S POSITION .....</b>	<b>5</b>
4.1. DO THE BENEFITS OF RICE VESTING OUTWEIGHT COSTS TO THE COMMUNITY AS WHOLE? .....	6
4.1.1. BENEFITS .....	6
4.1.2. COSTS .....	7
4.1.3. NET BENEFITS DERIVED FROM RICE VESTING.....	9
4.1.4. COMMUNITY BENEFITS.....	9
4.2. OTHER BENEFITS DERIVED FROM VESTING .....	10
4.2.1. RESEARCH AND DEVELOPMENT AND CROP SUPPORT .....	10
4.2.2. NON-FREIGHT ECONOMIES OF SCALE BENEFITS .....	13
4.2.3. GROWER CERTAINTY: PRICING CERTAINTY AND GROWER OF LAST RESORT PROVISIONS .....	13
4.2.4. CAN THE BENEFITS ASSOCIATED WITH VESTING ONLY BE ACHIEVED BY VESTING? ....	14
4.3. WITHOUT VESTING WOULD A VIABLE RICE EXPORT MARKET CONTINUE TO PROVIDE BENEFITS FOR NSW GROWERS? .....	14
4.3.1. ABILITY TO MAINTAIN ACCESS TO KEY INTERNATIONAL MARKETS .....	14
4.3.2. MARKETING ADVANTAGES: PRODUCT DEVELOPMENT, BRANDING AND TARGETED MARKETING .....	18
4.3.3. WITHOUT VESTING WOULD A VIABLE RICE EXPORT MARKET CONTINUE TO PROVIDE BENEFITS FOR NSW GROWERS? .....	19
4.4. THE PERIOD OF EXTENSION FOR VESTING.....	19
<b>5. CONCLUSION .....</b>	<b>19</b>
<b>6. CONTACTS.....</b>	<b>21</b>

## **1. INTRODUCTION**

The Ricegrowers' Association of Australia (RGA) welcomes the opportunity to participate in the review of the Rice Vesting Proclamation under the New South Wales Rice Marketing Act 1983 (the Act).

This submission is in response to the Review of Rice Vesting Proclamation - Information Paper issued by the NSW Department of Primary Industries, March 10, 2021.

## **2. THE RICEGROWERS' ASSOCIATION OF AUSTRALIA**

The RGA is the collective voice of rice growers in Australia. The RGA represents the interests of around 1000 voluntary members, equating to roughly 98% of Australia's rice growers.

The main objective of the RGA is to provide members with strong and effective representation on issues affecting the viability of their businesses, their communities and their industry.

The RGA is made up of eight branches located across Northern Victoria and the Murray and Murrumbidgee valleys of NSW. Each branch annually elects representatives to form the RGA Central Executive. The Central Executive represents their respective branches in determining RGA policy and projects. We operate as a member based not-for-profit incorporated association, governed by a grower elected board.

We focus on delivering policy-based advocacy to our members, focusing on three key areas; water, productivity and industry affairs, and environmental sustainability. One of the main factors influencing the viability of members businesses, their communities and the industry is the rice marketing arrangements for the state of NSW. Our central executive, supported through our grower members, has an objective to ensure the rice marketing arrangements in NSW deliver the best possible returns to growers.

The RGA is a member of the National Farmers Federation, National Irrigators Council, NSW Irrigators Council, Plant Health Australia and the Associations Forum.

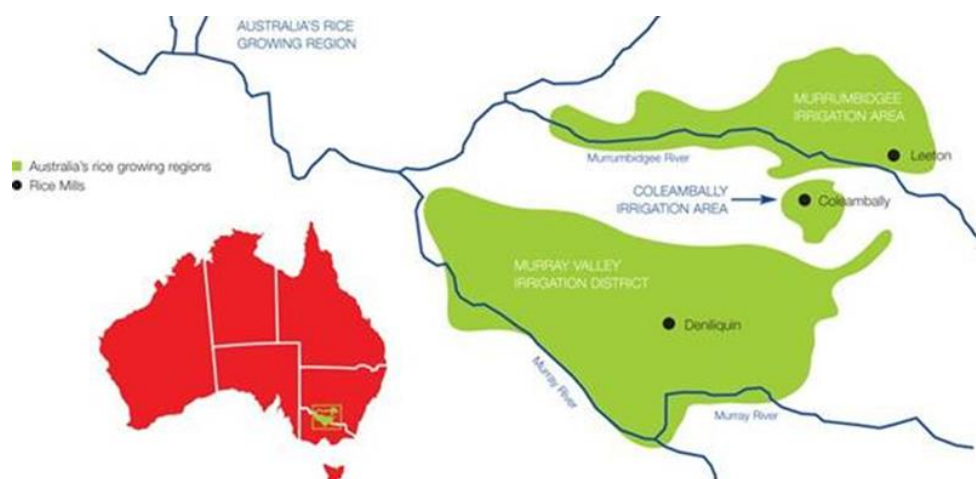
## **3. THE NSW RICE INDUSTRY**

The NSW rice industry is located predominantly within the Riverina region of south-west NSW, with small industries also situated in the Northern Rivers region of NSW and Burdekin Valley, QLD. "The rice industry matters to the NSW economy, we produce almost all of Australia's rice, mostly in the Murray and Riverina regions."<sup>1</sup>

The NSW rice industry is reliant upon irrigation, mainly sourced from the Murray and Murrumbidgee valleys. Provided water is available, the NSW rice industry is considered one of the world's most successful rice growing industries, delivering world leading yields and water use efficiency.

---

<sup>1</sup> [https://www.productivity.nsw.gov.au/sites/default/files/2021-06/Productivity%20Green%20Paper\\_Consolidated\\_v2.pdf](https://www.productivity.nsw.gov.au/sites/default/files/2021-06/Productivity%20Green%20Paper_Consolidated_v2.pdf)



According to the United Nations Conference on Trade and Development (UNCTAD), Australia is classified as one of the most efficient producers of rice in the world.

The rice growing regions of NSW success is due to the temperate climate, strict monitoring of biosecurity resulting in a pest and disease free environment. The heavy clay soils and gravity irrigations systems and continued investment in research, development and extension ensure efficient water delivery and use is achieved.

NSW rice growers produce primarily Japonica (short and medium grain) rice which is more suited to the temperate climate, although some Indica (long grain) rice characteristics have been introduced to specialty varieties through the rice breeding program. Japonica rice is a “niche” commodity that is principally grown in specific temperate climate regions of Japan, Australia, California, China and Egypt.

The rice industry matters to the NSW economy, producing 98% of Australia’s rice in the Murray and Riverina regions, exporting up to 74% per cent depending on seasonal conditions. <sup>2</sup>

The towns of Leeton, Griffith, Coleambally, Finley, Berigan, Tocumwal, Jerilderie, Deniliquin, Barham, Wakool and Moulamein and their communities are highly dependent on rice production for economic and social wellbeing.

For the 10 year period, 2008-09 to 2018-19 the average annual Riverina rice production was 629,000 tonnes<sup>3</sup>. This average level of production delivers around \$400 million in grower payments, salaries and direct payment to SunRice Contractors in the region.

The stability and strength of rice production in the Riverina is underpinned by consistently high returns to growers, driven by the following industry characteristics:

- Scale advantages associated with freight and infrastructure.
- SunRice’s ability to access and maintain premium markets despite the ever changing nature of international rice markets.
- Continued investment in research and development.
- Continued quality of processing, storage and production in the Riverina.
- The evolution of SunRice brands and products to be sustainable and at the forefront of development.

<sup>2</sup> <https://www.agriculture.gov.au/abares/research-topics/agricultural-outlook/rice>

<sup>3</sup> Rice Production, <https://www.agriculture.gov.au/abares/research-topics/agricultural-outlook/rice>

These characteristics are described in detail below, outlining their relevance to specific Terms of Reference for this review.

## **SUNRICE**

Celebrating 70 years involvement, beginning in 1950 the SunRice group has a long association with agriculture in NSW. Born when a group of Riverina rice growers pooled their resources to build a single rice mill, today SunRice Group is an ASX listed global Fast Moving Consumer Goods Company (FMCG). Today they are recognised as one of Australia's leading branded food exporters, with 2200 employees, spanning 50 countries, 30 brands and 11 businesses.

SunRice is a fully vertically integrated company, taking a "Paddock-to-Plate" approach which sees it navigating NSW rice from the farm gate through milling, packing, conversion to value-added products, and delivery to customers around the world.

Despite dual challenges of the second consecutive year of critically low Riverina production and COVID-19, SunRice reported revenue of \$1.03b this past financial year, sourcing rice products from 12 different countries to meet demand in 50 global markets.

This structure enables NSW rice growers to receive paddy returns from SunRice's rice milling and marketing business and if they hold B Class Shares, receive dividends flowing from the company's complementary and subsidiary businesses. SunRice's ability to fund diversification, deliver high grower returns and dividend payments during periods of drought, can be contributed in large part to the current SEEL arrangement.

The flow of rice through the SunRice business model enables NSW rice to be sold around the world, targeting specific markets with branding and products designed to maximise returns to the SunRice shareholders and NSW rice growers.

## **RICE MARKETING BOARD**

The Rice Marketing Board for the State of New South Wales was the first commodity marketing board established in New South Wales under the Marketing of Primary Products Act, 1927, and was officially constituted by Proclamation on 9th November, 1928.

The Board's primary function is to obtain the best possible monetary return to rice growers and operates under the authority of and in accordance with the Rice Marketing Act 1983.

The Rice Marketing Act 1983 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 Single and Exclusive Export Licence (SEEL) for five years, subject to an annual review. The current proclamation of vesting ends on 30 June 2022.

The objectives of the Board are:

- 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.

The Board encourages 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.<sup>4</sup>

## 4. THE RGA'S POSITION

**The Ricegrowers' Association of Australia supports vesting based on analysis of the arrangements, which identified no loss of competition in the domestic market while providing net benefits to growers, their communities and the industry. This position is unanimously supported by the Branches and a recommendation for the RGA's Productivity and Industry Affairs Policy Committee.**

This view is supported by motions received from each of the RGA's branches at their respective 2021 Annual General Meetings (see table 1).

### **RGA motions in support of the rice marketing arrangements**

*(Passed unanimously at the 2021 branch AGM's held from 12 – 15 July 2021 and the RGA Central Executive meeting held 20 July 2021).*

- **Deniliquin / Hay / Victoria Branch** - "That Deniliquin, Hay and Victorian Branches of RGA support the continuation of vesting powers for the rice industry of NSW into the future."
- **Berriquin Branch** - "The Berriquin RGA Branch is supportive of retaining the vesting rights in NSW, due to the positive benefits it has on the rice industry and our communities."
- **Coleambally Branch** - "Coleambally Branch of RGA fully supports the continued vesting powers and arrangements of the NSW Rice Marketing Board."
- **Yanco Branch** - "Yanco Branch strongly supports vesting and urges the NSW Government to action RGA's position regarding the continuation of vesting for our industry."
- **Mirrool Branch** - "That the Mirrool Branch strongly supports the continuation of vesting arrangements in the state of NSW and their continued benefits to growers."
- **Wakool Branch** - "Wakool Branch strongly support continuation of vesting arrangements in the state of NSW."

**Table 1 RGA Branch Motions supporting the maintenance of the current vesting arrangements**

The RGA's position is founded on a belief that:

- (a) the benefits of vesting to the community outweigh the costs;
- (b) the benefits associated with vesting, and in particular price premium for growers, can only be achieved through the restriction on export competition;
- (c) that the ongoing access to premium export markets at a scale that delivers profitable growers returns will be placed at risk if the current vesting arrangements are terminated; and;

---

<sup>4</sup> <https://www.rmbnsw.org.au/>

- (d) if this review supports the continuation of vesting, future consideration should be given to amend the act so that the interval between reviews is extended for as long as practicable to provide growers with stability and certainty for the future.

The RGA's position on continuation of vesting is outlined through addressing the reviews' Terms of Reference:

- A. Do the benefits of rice vesting outweigh the costs to the community as a whole?
- B. Are any net benefits (or the majority of these benefits) derived as a result of rice vesting alone?
- C. In the absence of rice vesting, would a viable rice export market continue to provide benefits for NSW rice growers?

## 4.1. DO THE BENEFITS OF RICE VESTING OUTWEIGHT THE COSTS TO THE COMMUNITY AS A WHOLE?

### 4.1.1. BENEFITS

The RGA believes the benefits of rice vesting far outweigh the costs of overseeing the arrangements by the Rice Marketing Board (RMB) and any indirect cost to the producer, consumer, tax payer or the broader community.

#### Export Price Premiums

The average yearly export price premium delivered from vesting for the period 2011-12 to 2019-20 was \$50.6 million (AUD). The average per tonne benefit of rice grown for the period 2012-13 to 2019-20 was \$191.25.

FINANCIAL YEAR	TOTAL BENEFIT (\$AUD)	PER TONNE (\$AUD)
2019-20	27.0 million	273/t
2018-19	25.8 million	121/t
2017-18	21.7 million	82/t
2016-17	26.4 million	221/t
2015-16	70.658 million	268/t
2014-15	82.412 million	228/t
2013-14	95.199 million	199/t
2012-13	65.908 million	138/t
2011-12	40.292 million	

**Table 2: Export Price Premiums, Source RMB 2012-2020 Annual Reports to NSW Growers**

#### Freight Scale Advantage

Freight cost savings provide SunRice with a competitive edge over other competing importers in some of its key markets, including New Zealand, the Pacific Nations and the Middle East. The demand for high quality medium grain rice in these markets means that SunRice's main competitor therein is California. SunRice enjoys a freight advantage over Californian in these markets due to their relative proximity. Vesting allows SunRice to capture this freight advantage by selling product in these markets on a landed price basis (based on the landed price for US rice).

On the other hand, the fact that California has multiple export market competitors means that their product is marketed on export price basis. If multiple players were to export rice from NSW, they would

likely also compete away the current freight advantage resulting in NSW growers also selling their rice on an export price basis rather than a landed price basis. The loss of the freight advantage would not only disadvantage NSW growers, but also the NSW and Australian economies.

The current vesting arrangements ensure that the NSW rice industry maximises the size or scale for each consignment of export rice. The RMB annually reviews the freight scale benefit derived from the Sole and Exclusive Export Licence (SEEL). The average annual benefit delivered from the freight scale advantage 2011-12 to 2019-20 was \$9.2 million. The annual average per tonne of rice delivered for the period 2012-13 to 2019-20 was \$25.

FINANCIAL YEAR	TOTAL BENEFIT (\$AUD)	PER TONNE (\$AUD)
2019-20	2.41 million	24.35/t
2018-19	4.39 million	22.23/t
2017-18	7.81 million	32.18/t
2016-17	2.452 million	20/t
2015-16	9.239 million	35/t
2014-15	14.319 million	41/t
2013-14	18.492 million	25/t
2012-13	13.513 million	32/t
2011-12	10.533 million	

**Table 3: Freight Benefits derived from the scale of operations, Source RMB 2012-2020 Annual Reports to NSW Growers**

When combining the average annual Export Premium and the Average annual benefit from the freight scale advantage there is a total average annual benefit of \$59.8 million or \$216.00 per ton for the NSW rice industry.

Of note is the disruption to shipping by COVID-19 and the connected shortage of available containers means that the cost per container shipped has risen dramatically. The scale of SunRice operations and the skillset within the business is enabling exports of rice to continue, all be it at a higher cost. When the freight scale advantage is reviewed for 2021 it will most likely indicate an even higher advantage than any previous time.

## **COSTS**

The Rice Marketing Board operations is funded through the issue of rice buyer licences. These include licences for buyers selling into the Australian domestic market and the SunRice Single and Exclusive Export Licence.

Year	Operating Cost
2017	\$471,000
2018	\$536,000
2019	\$557,000
2020	\$559,000

**Table 4: RMB operating costs 2017-20**

The average annual cost for the RMB to oversee and manage the current vesting arrangements for the period 2017-20 was \$530,000.



## COSTS TO THE CONSUMER

### Other NSW RICE Growing Areas

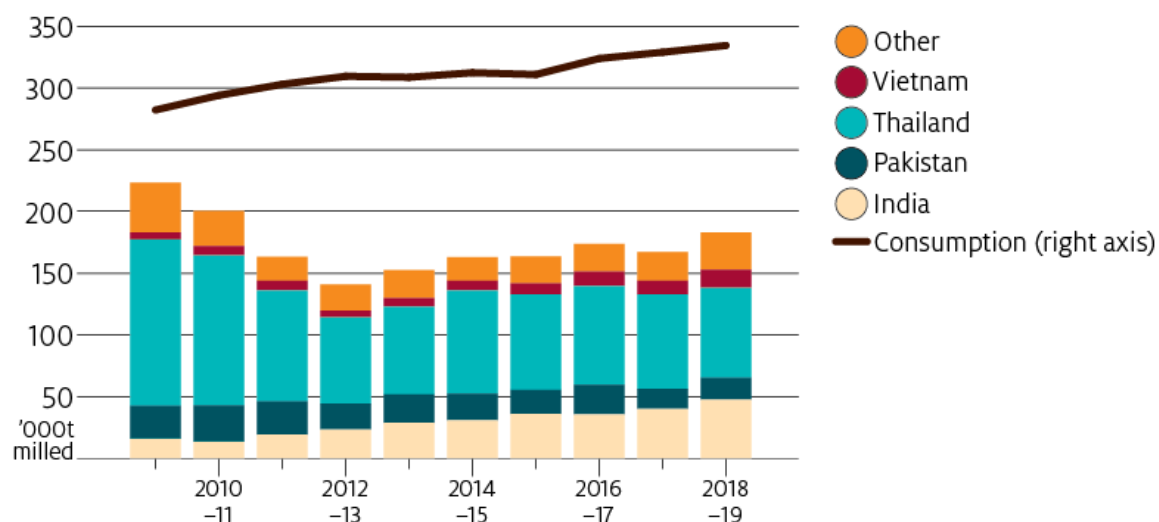
Is there a cost or negative impact to rice growers outside the Riverina rice growing valleys due to the current Vesting arrangements? From data available from the RMB the average tonnage of rice produced for the period 2016-2020 was approximately 1500 tonnes. Not all of the information is available from the Northern Rivers region however based on a Land Newspaper report from April 2021 there were 1200 hectares of rice planted in the region this season. The actual tonnes harvested was not available for use in this submission. However, if it is assumed that average yields for the region of (6T/Ha) was achieved, there could have been around 7,200 tonnes harvested with no more than 300 or 400 tonnes harvested from other non-Riverina locations. With a domestic market of 300,000 tonnes, finding a home for 7,600 tonnes in this market should be easily achieved. With respect to an export market potential, the RGA believes that tonnages harvested at this level, would not be viable to invest in developing export markets.

### The Domestic Market

The Australian domestic rice market is highly competitive. The current vesting arrangements place no restriction on import and competition in the domestic market. There is no regulation in the domestic market.

Australians are estimated to consume about 300,000 tonnes of rice every year (ABARES 2019). About half of this volume typically comes from imports (mostly long grain rice, such as basmati and jasmine) and the other half from domestic production (mostly medium grain rice).

Australia relies on rice imports every year, reflecting prices and consumer preferences for varieties of rice that are not grown in Australia. Annual rice imports between 2009–10 and 2018–19 averaged 173,000 tonnes (ABS 2020b). Most imports originate from long grain rice producing countries, subject to strict biosecurity protocols. Australia can also import medium grain rice in years of drought.<sup>5</sup>



**Figure 1: Australian rice imports 2020;** Sources: ABARES (2019); ABS (2020); UN Statistics Division (2020)

<sup>5</sup> <https://www.agriculture.gov.au/abares/research-topics/agricultural-outlook/rice>

As can be seen from the graph above the Australian domestic market comprises around 50% imported and 50% from domestic production. It is a highly competitive market where the Vesting arrangements have no impact. Vesting does not impose any cost to the Australian consumer.

#### **4.1.2.NET BENEFITS DERIVED FROM RICE VESTING**

**Terms of reference question A; “Do the benefits of rice vesting outweigh the costs to the community as a whole?”**

From the RMB verified data provided, it is clear that the benefits from vesting far outweigh the costs. With an annual average benefit of \$59.8million minus the average annual cost of vesting we see a net benefit of \$59,270,000 per annum. Clearly this net benefit demonstrates the importance of vesting to Riverina rice farmers, the broader industry, the rice communities and the State of NSW.

#### **4.1.3.COMMUNITY BENEFITS**

##### **Regional Wealth**

A substantial part of the income generated by SunRice from overseas markets is paid as a component of the paddy price or dividends to growers and shareholders in the Riverina, which is in turn spent or invested in the region.

As an example, for Crop Year 2018 with 623,000 tonnes harvested the direct payments made to the Riverina economy include:

- approximately \$90 million in employee remuneration, to 400 Riverina based employees;
- approximately \$250 million in paddy payments to Riverina rice growers; and
- approximately \$60 million in payments to more than 400 Riverina-based businesses covering industries including transportation and logistics, accommodation, and catering.

This equates to contribution of up to \$400 million into the NSW rice growing communities.

If a conservative assumption is made based on 80% of these direct payments expended (20% saved) on consumer, production goods and services a multiplier of five times can be applied. With the majority of these funds distributed throughout the NSW economy.

Additional community financial returns are delivered through SunRice’s B class share dividends. As noted in the 2021 SunRice Annual report a dividend of 33 cents per B class share was made, making it the sixth consecutive year at this level.

It is noted that rice farmers continually invest in their farming operations. It was concluded from data obtained on farmers’ investment during the RGA’s On Farm Irrigation Efficiency Programs that the combined investment by individual rice growers in land, water, plant and equipment was in excess \$2.5 billion. Additionally, collectively they have invested around \$400 million in mill storage and infrastructure through SunRice. Of course all of this investment has delivered massive flow on benefits to the Riverina communities and the state of NSW.

Economic activity to this level, with the security to reinvest has and will only continue to occur if consistent, profitable returns are made to growers and the broader industry participants. Again the current vesting arrangements provide a level of certainty and confidence to secure reinvestment for the future.

## **Employment and Local Investment**

SunRice is considered one of the largest employers in the Riverina. The SunRice group employs around 2000 people with more than 600 employed in NSW. Of these 500 employees are based in the Riverina rice growing communities.

SunRice is committed to its workforce and provides employees with a range of career advancement training and development opportunities that are otherwise limited within regional NSW. This employment plays a significant role in maintaining the social and economic standing of the local region.

In addition, SunRice and its employees contribute significantly to the economic viability of these regional communities through investment in the products and services of local businesses. Without this investment, many of these businesses would not be viable.

This local employment and investment is also important in ensuring that a critical mass remains to justify the continuation of many essential services within these respective communities. This is very important to safeguarding the wellbeing of many within these communities.

Therefore the role that the Riverina rice industry plays in upholding the social and economic standing of regional communities across the Riverina cannot be underestimated.

## **Community Support**

In average production years (600,000 tonnes of delivered paddy), SunRice also provides more than \$700,000 in direct support for communities in the Riverina, including by:

- providing a \$30,000 scholarship each year for women in the rice industry to undertake tertiary studies, through the Jan Cathcart Scholarship; and
- sponsoring community groups, social programs and events. For example, SunRice sponsors the Leeton SunRice Festival and the Deniliquin Ute Muster, as well as many other community groups, programs and events.

This profound involvement in the community means that the company has strong ties in regional NSW and in particular with the people who live in the Riverina.

In addition, SunRice has established structures to allow its growers to contribute to charities across Australia via its sponsorship of Foodbank Australia, and contribute to important food aid in the US and across the Pacific in times of crisis, via its global network.

## **4.2. OTHER BENEFITS DERIVED FROM VESTING**

There are other significant benefits that are delivered in at least in part by the current vesting arrangements. These include Research and Development (R&D) and crop support, manufacturing, marketing and distribution R&D, operational efficiencies, security of investment into infrastructure, quality assurance, grower price protection, buyer of last resort and a range of community benefits.

### **4.2.1. RESEARCH AND DEVELOPMENT AND CROP SUPPORT**

Rice research and development plays a key role in improving irrigation efficiency, and improving the resilience and productivity of the rice industry, particularly considering the pressures on the industry resulting from both water reform and climate variability. In 2019 rice growers voted in favour of an increase of the R&D levy from \$3 to \$6 per tonne. Changes associated with this came into effect in July 2020. The doubling of the levy shows a commitment by growers to contribute to R&D. Industry

stakeholders have agreed to develop a plan for and invest in transformational change with the following goals that will apply to all aspects of RD&E, including:

- 1.5 tonnes per megalitre by 2030.
- Bold medium grain variety.
- Focus on agronomy solutions – i.e. delayed permanent water.
- Alignment of RD&E Programs.

The rice industry recognised many years ago that “price premiums can be achieved by producing a product with intrinsic quality and service characteristics that consumers are prepared to pay more for, relative to commodity-grade alternatives.”<sup>6</sup>

For this reason SunRice has continually invested in research and development to add further value to its rice through the production, manufacturing, marketing and distribution of its products.

It should be noted that without the current Vesting arrangements SunRice would still maintain investments into R&D however they may choose to maintain the intellectual property rights of any new agronomic and technological developments solely for their own use.

The ability of SunRice to invest large sums of money into research and development is reliant upon the maintenance of the Rice Vesting arrangement. Rice Vesting provides SunRice the confidence to make larger than normal R&D investments, even when the returns on these investments are only likely to be realised in the long term.

### **Production R&D**

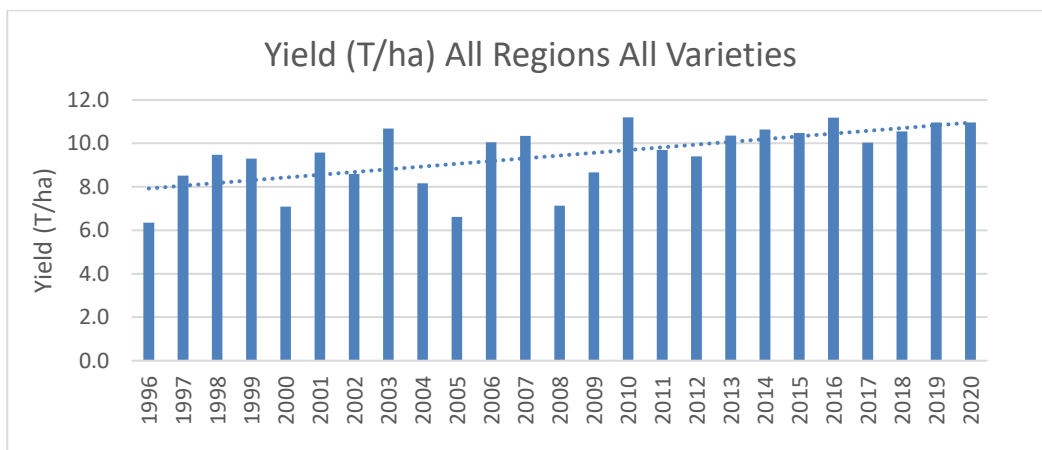
The rice industry has made a strong commitment to research and development to provide growers with rice varieties that are acknowledged to produce high quality grain. These varieties are amongst the most productive in the world and are supported by R&D developed extension packages delivering ongoing improvements in best management practices that deliver production and environmental benefits.

SunRice is a financial partner in the Rice Breeding and Grain Quality Program along with the NSW Department of Primary Industries and AgriFutures Australia. This arrangement is currently being strengthened following a review process, which will also incorporate the RGA as a representative of the levy payers in this partnership. In addition, SunRice’s wholly owned subsidiary Rice Research Australia P/L (RRAPL) operates the Pure Seed Scheme, which underpins the quality and purity of rice seed provided to all growers. These programs in particular require the confidence to make long term high-risk investments. RRAPL also carries out a portfolio of other R&D projects to deliver higher yields, more efficient water usage and better market returns.

For the five year period (Crop 2016 – 2020), NSW rice yields averaged 10.6 tonnes per hectare. This is an increase of .4 tonnes per hectare since the last vesting review in 2016. As highlighted in the graph below.

---

<sup>6</sup> Australian Government Productivity Commission, 2016, ‘Productivity Commission Draft Report: Regulation of Agriculture’, < <http://www.pc.gov.au/inquiries/current/agriculture/draft/agriculture-draft.pdf>>.



**Figure 2: NSW rice yields per hectare 1996 to 2020 Riverina and Victoria**, Source SunRice Growers Services

Higher yields from more productive and quicker maturing varieties are improving grower returns and reducing water usage, ensuring NSW growers remain the most efficient and productive in the world, while still protecting the environment. The environmental sustainability of the industry is something SunRice treats with the highest regard, and hence continually invest in Sustainability Framework development. The framework for “RiceGrowers’ Promise” is being developed in partnership with Local Land Services through funding from the Australian Governments National Landcare Program. This project is sharing rice industry sustainability framework knowledge with Local Land Services to assist in supporting the development of other industry or group frameworks.

It is unlikely that other new exporting entities will have the economies of scale to invest in these types of programs and deliver the same level of support to NSW growers.

**Crop Support**

The Grower funded (through AgriFutures) Rice Extension team works in partnership with SunRice Grower Services to support rice growers. They work with growers to monitor their crops through the growing season, deliver a range of agronomic extension tools and coordinate grower group meetings. It involves linking NSW DPI, University and commercial researchers with the growers and their research. This approach leads to rapid uptake of research findings and new technology. The current coordinated crop support is provided at no direct cost to the grower. Without this service, growers would be required to obtain this information from private enterprise at their own cost or paid for by crop input margins. Rice farmers value the independent agronomic advice this provides.

This service and the independent verification of the agronomic advice is only possible due to the integration of the Riverina rice industry. The current vesting arrangements assist SunRice to operate at sufficient scale to allow it to contribute to this service.

**Manufacturing, Marketing and Distribution R&D**

The SunRice invests heavily into market research, developing new and improving existing manufactured food products, processing systems and distribution networks. This leads to the implementation of a range of high-tech and innovative technologies. An example of this is the recent conversion of the Coleambally rice mill to a state of the livestock feed production facility.

This investment enables SunRice to deliver very high productivity and enables the development of new value added products and improved manufacturing processes that keep their brands at the forefront of consumers. A new entrant to the export market would not be able to deliver the level of commercial innovation that SunRice is currently delivering.

#### **4.2.2. NON-FREIGHT ECONOMIES OF SCALE BENEFITS**

Taking into account the relatively small size of the industry, scale efficiencies are important to every aspect of the paddock to plate model outlined below.

##### **Quality Assurance: Supply Chain ‘Paddock to Plate’**

SunRice’s total supply chain control has also been critical to its continued innovation and strong performance. In addition to enabling SunRice to ensure the quality of its final product; SunRice’s ability to oversee production from “paddock to plate” ensures that its varieties and products are developed specifically to service the needs and tastes of the most high value international markets. Its ability to use price signals to ensure levels of supply for specific varieties, coupled with its understanding of market demand, means that these high value markets are adequately serviced without excess.

In addition, SunRice’s oversight of the production, milling and packaging process ensures the quality of the final product. The introduction of additional exporters who do not apply the same level of oversight to this process will potentially jeopardise the perceived value of Australian rice in overseas markets.

##### **Operational Efficiencies**

While SunRice is not subject to competition as an exporter in NSW, the fierce competition for irrigation water requires SunRice to deliver its growers the best possible return, or otherwise face losing these producers to other irrigation industries who potentially offer a greater return per megalitre.

Water trade regulations now allow water to freely move to those crops that generate the greatest return per megalitre. The obvious competitor for SunRice in this regard is the cotton industry; however SunRice also faces fierce competition from the grain, oil-seed, permanent plantings and other summer cropping industries.

In addition, SunRice must try to ensure that the rice return per megalitre is greater than the market value of that water. Every aspect of SunRice’s operations have to be of the highest operational efficiency to deliver grower returns at a level that farmers make rice a crop of choice.

Without the maintenance of rice vesting there is a distinct risk that rice growing will become fragmented with small groups of growers or individual growers located at great distances from existing storage and processing operations. If this was to occur it would have a severe impact on operational efficiencies.

##### **Infrastructure and Processing Investment**

In comparison to other grain crops, significant investment in infrastructure is required to dry, store, process and transport rice. Fortunately for growers, SunRice now owns the majority of its infrastructure outright, including all rice receipt sites.

As noted earlier the asset value of the SunRice groups’ receipt, storage and processing facilities is in the order of \$400 million. For a new export competitor to enter the market they would need to storage capable of segregating their grain and the different varieties purchased. If this was to be done while meeting the requirements for a quality food product it would come at a significant cost.

#### **4.2.3. GROWER CERTAINTY: PRICING CERTAINTY AND GROWER OF LAST RESORT PROVISIONS**

An often overlooked benefit of the SEEL is the buyer of last resort provision. SunRice is the buyer of last resort, which obligates SunRice to purchase every last tonne of rice produced by NSW rice growers, at the variety specific price, provided it is of merchantable quality. This provides growers with an alternative insurance mechanism not available in other similar industries.

SunRice purchases rice under fixed price contracts or into a pool. Both arrangements provides price certainty and competitive returns for all growers. SunRice pays for rice supplied through periodic payments to smooth farm cash flow and offers a payment program to bring forward future payments if growers require earlier than normal cash flow. Through its insurance subsidiary, SunRice growers are also able to access crop insurance at highly competitive rates.

#### **4.2.4. CAN THE BENEFITS ASSOCIATED WITH VESTING ONLY BE ACHIEVED BY VESTING?**

**Terms of reference question B;” *Are any net benefits (or the majority of these benefits) derived as a result of rice vesting alone?*”**

As noted in response to Terms of Reference question A, for an average production year of around 600,000 tonnes of paddy delivered there is a net benefit of \$59,000,000. This net benefit is entirely due to the current vesting arrangements. Of course a secure and consistent contribution of this magnitude will support at a minimum part of a significant range of industry and community benefits including:

- Research Development and Extension (R&D);
- crop support;
- manufacturing, marketing and distribution R&D;
- operational efficiencies;
- security of investment into infrastructure;
- quality assurance implementation;
- grower price protection;
- buyer of last resort provision, and;
- a range of significant community benefits.

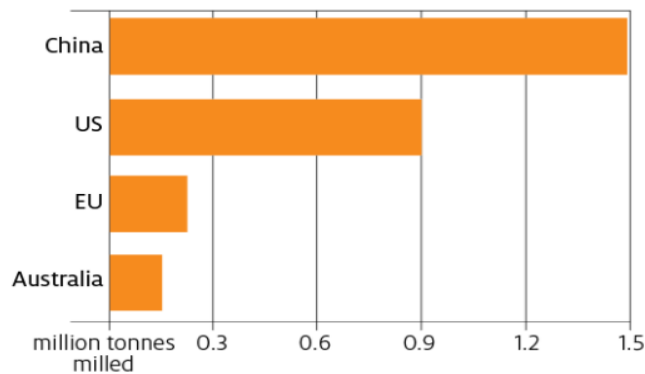
#### **4.3. WITHOUT VESTING WOULD A VIABLE RICE EXPORT MARKET CONTINUE TO PROVIDE BENEFITS FOR NSW GROWERS?**

The international market is unique in so many ways, with rice grown in many Asian countries being of cultural significance rather than a just commercial crop. This is one of a range of reasons why different countries protect their domestic markets or support their farmers with subsidies and other forms of trade restrictions. For SunRice not only do these trade complexities heighten the need to build strong international trading relationships but also maintain the supply of high quality rice to maintain the relationships.

##### **ABILITY TO MAINTAIN ACCESS TO KEY INTERNATIONAL MARKETS**

Australia is a small exporter, representing around 5% of the global medium and short grain rice exports. The NSW rice industry remains a competitive supplier through premium rice products traded into world markets due to the advantages associated with current marketing arrangements in NSW and the SEEL agreement which is held by SunRice, the growers’ company.

Global exporters of medium grain rice in 2019



Note: Figure shows a selection of medium grain rice exporters for 2019. EU exports are japonica and Sep 2018 to Aug 2019.

Sources: ABARES (2020b); China Customs (2020); European Commission (2019); USDA-FAS (2020)

**Figure 3: Global exporters of medium grain rice**

The ability of NSW rice growers effectively market their rice internationally is impacted by two major factors.

### **The Complexities of the International Rice Trading Environment**

World rice market is a unique, challenging and often distorted export trading environment, unlike the trading environments available to other agricultural commodities.

Seneca while completing independent verification of the 2019-20 export price premium observed; *"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."*<sup>7</sup>

Rice, being the world's most important staple food underpins food security of many nations. For this reason, rice continues to be one of the most highly protected agricultural commodities internationally. Protections on rice, not only includes tariffs and trade barriers but subsidies, biosecurity protocols along with cultural resistance and tradition. The snippet below provides an insight into the challenges of this trade environment:

***"Rice is a political commodity in the majority of Asian countries and its price is an important barometer of government performance. Thus, it becomes imperative for policymakers to control rice trade flow for domestic rice market to be stable. State agencies are involved in controlling the flow of rice in and out of countries and, in many cases, they also take part in importing/exporting rice through government-to-government (G-G) contracts."***<sup>8</sup>

The challenging trade conditions to which Australia is often subjected, were highlighted in 2014, which saw rice omitted from Australian Free Trade Agreements: Japan, Korea and China. Since this time the rice industry has mounted strong campaigns to create awareness and raise the profile of our industry but unfortunately little has changed in the development of trade agreements. The exception being the

<sup>7</sup> <https://www.rmbnsw.org.au/files/2019-20%20Ninth%20Annual%20Report%20to%20Rice%20Growers.pdf>

<sup>8</sup> Mohanty, S., 2015, 'Trends in global rice trade', *Rice Today*, International Rice Research Institute, <http://ricetoday.irri.org/trends-in-global-rice-trade/>



proposed opening of trade for Australian rice under the Australia United Kingdom (UK) Free Trade Agreement. In 2019 there was 73,894 tonnes of round and medium grain rice delivered into the UK market. The majority of this was delivered from EU countries.<sup>9</sup> This market will be an opportunity to build premium export volumes however it will be under strong competition from EU exporters.

Considering SunRice is a relatively small international player, its international success is credited to the strength of Australian rice as a premium product. This brand recognition is due to SunRice's continued investment in branding, marketing, research and development and through SunRice's vertically integrated structure, as explained below. To SunRice's credit, it has maintained the power of their brands in key markets despite strong competition.

Nevertheless, the export market's price sensitivity was clearly demonstrated at the commencement of the millennium drought when SunRice had not yet 'drought-proofed' its operations, and loss of production resulted in loss of economies of scale efficiencies, higher prices and loss of market share.

This turn of events clearly demonstrated to SunRice that fragmenting export channels would result in loss of scale benefits which would in turn erode the competitive advantage of NSW rice to the detriment of growers and the community at large.

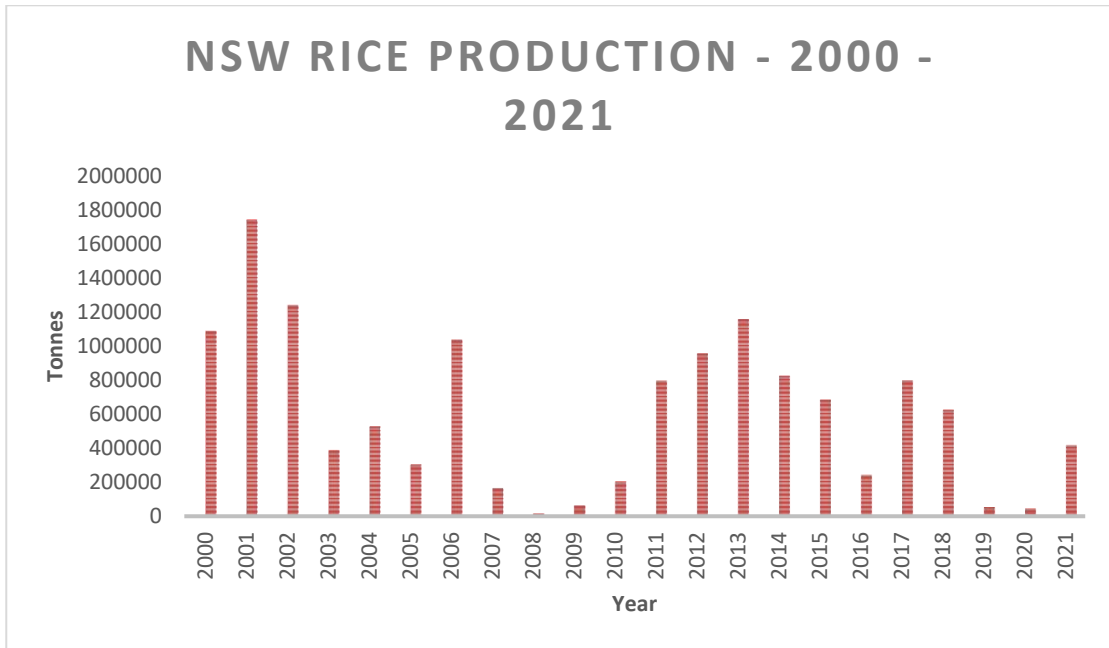
In addition to being a very small player by international standards, the NSW rice industry is also required to manage and market an extremely volatile total annual production as demonstrated in *table 5*. For example, for the 2019 crop NSW rice growers harvested 54,801 tonnes of rice; this is less than a tenth of the previous seasons' production of 621,801 tonnes.

### **Statistical Summary - New South Wales Only**

		2020 Crop	2019 Crop	2018 Crop	2017 Crop	2016 Crop
Number of farms producing rice	MIA	56	62	307	382	220
	CIA	18	11	136	201	87
	MV	26	27	488	596	101
	Other*	4+	7+	7+	7+	4
	<b>TOTAL</b>	<b>104+</b>	<b>107+</b>	<b>938+</b>	<b>1,186+</b>	<b>412</b>
Production (Tonnes)	MIA	28,878	36,695	233,478	308,511	152,951
	CIA	4,236	3,939	71,871	109,316	39,849
	MV	11,699	14,167	316,606	381,016	51,384
	Other	1,362	540	3,857	833+	603+
	<b>TOTAL</b>	<b>46,175</b>	<b>55,341</b>	<b>625,812</b>	<b>799,676+</b>	<b>244,787+</b>
Harvested Area (Hectares)	MIA	2,471	3,222	20,953	29,134	13,382
	CIA	462	400	7,396	11,795	3,980
	MV	1,287	1,471	31,241	39,158	4,884
	Other*	-	-	-	-	220
	<b>TOTAL</b>	<b>4,220+</b>	<b>5,093+</b>	<b>59,590+</b>	<b>80,087+</b>	<b>22,466.00</b>
Average Yield (Tonnes/Hectare)	MIA	11.69	11.38	11.14	10.6	11.40
	CIA	9.18	9.85	9.72	9.27	10.00
	MV	9.09	9.63	10.13	9.7	10.50
	Other*	-	-	-	-	2.70
	<b>OVERALL</b>	<b>10.9 est</b>	<b>10.76 est</b>	<b>10.5 est</b>	<b>10.0 est</b>	<b>10.90</b>

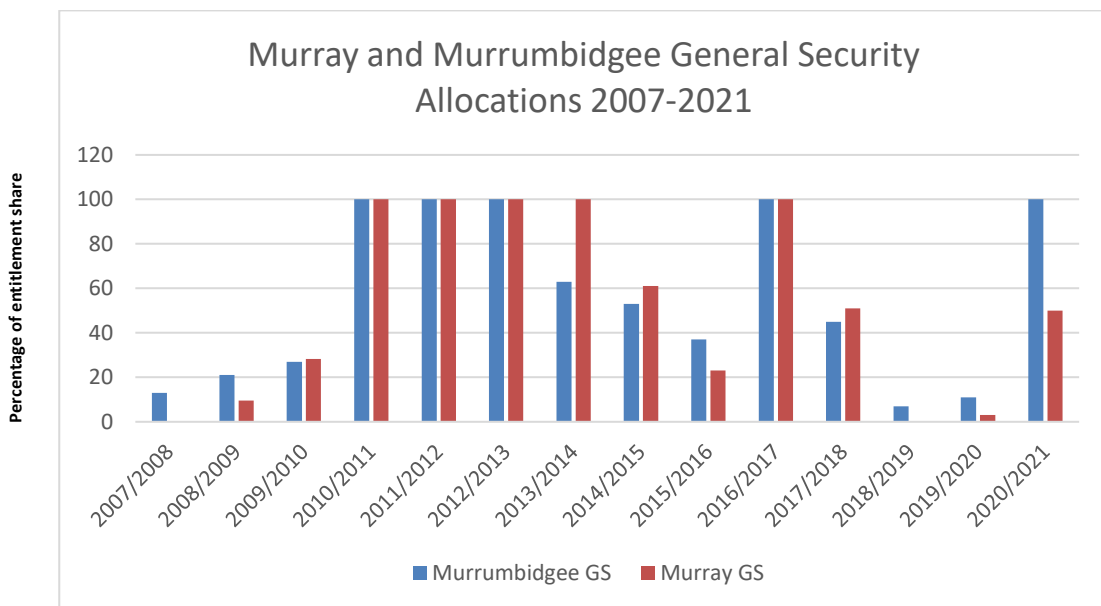
**Table 5: Summary of NSW rice production, source RMB.**

<sup>9</sup> <https://www.dfat.gov.au/sites/default/files/aukfta-submission-sunrice-group.pdf>



**Figure 4: Rice deliveries recorded by RMB between 2000 and 2021**

The main factor driving the instability in total production is the variability of NSW Murray and Murrumbidgee general security water allocations, which in turn is driven by rainfall. To this end it is unlikely that the NSW rice industry will see more stable levels of production in the near future.



**Figure 5: Water allocations between 2007/08 to 2020/21 for Murray and Murrumbidgee irrigators.<sup>10</sup>**

The smaller crop size and the instability of total production set the rice industry apart from other grain industries. These other industries are generally reliant upon a mix of irrigated and dryland farming enterprises and located across a large and diverse part of NSW. The variability in farm production

<sup>10</sup> RGA.

methods and the geographical and climatic diversification mean that these grain industries experience much larger annual production with much less variability between seasons.

SunRice's ability to maintain a continuous supply of rice to key export markets, even throughout the recent drought of 2018-19 with two years of production below 55,000 tonnes, is a testament to the benefit of the economies of scale created by Rice Vesting. In particular, scale of production has allowed SunRice to implement a combination of strategies to protect itself against climatic shocks, including:

- Selective allocation of NSW rice in key markets;
- Global procurement of stocks to maintain supply of Australian brands in other markets; and
- Investment in off shore facilities to provide direct access to key global rice sources, as well as expansion of export markets.

The investments in securing the future of SunRice's rice brands on the international market have been considerable. However, they will benefit the industry as a whole in the future due to the ease of returning to supply with NSW rice. Such investments are only possible where there is certainty of access to future NSW rice crops for export markets.

SunRice's understanding and experience in export markets, its' ability to procure stock globally, and its investment in off shore facilities provides SunRice with an international trading advantage unlikely to be obtained by other local competitors.

Previous reviews have accepted the unique circumstances in which the NSW rice industry operates and have supported the continuation of the current arrangements noting that the export single desk provides a significant benefit to rice growers and consumers.

#### **4.3.1. MARKETING ADVANTAGES: PRODUCT DEVELOPMENT, BRANDING AND TARGETED MARKETING**

When compared with other grain industries, the NSW rice industry takes a very different approach to the marketing of its product. Whereas other grain industries continue to export bulk unprocessed product, all of SunRice's exports consist of milled (ready to cook), value-added, packaged and branded products (including rice cakes, rice flour, microwave rice and microwave meals). SunRice now has over 30 brands encompassing over 700 products which service 48 export markets. It is noted that any company can purchase NSW rice and process it in Australia into a ready to eat meal, snack food or any highly processed rice food product and export it internationally. They cannot purchase and export milled rice.

Branding of NSW rice by SunRice has added considerable value to the exports. SunRice's brands have very strong recognition in key markets and hence achieve a premium over competitors' products.

The strength of the SunRice brand is due to the favourable perceptions of Australian rice in key markets. This is partially due to the awareness of Australia as a clean, green country who consistently produces high quality rice. However this perception should not be taken for granted. It is the product of SunRice investing in targeted and consistent marketing over a long period of time.

SunRice also works hard to ensure the end product meets the high expectations of consumers by delivering a consistently high quality product which has been designed to meet the specific tastes of the end-consumer. Quality is assured through SunRice's varietal development, processing infrastructure and total supply chain quality assurance.

Despite NSW's relatively small size in the international market, it is able to extract significant premiums due to the consistent focus on providing a niche product of superior quality. With multiple exporters of NSW rice, these benefits would not be exclusive to one supplier. Hence any benefit derived from this differentiation would be competed away by the multiple exporters who fight to obtain market share.

Taking into consideration the sensitivities attached to rice in the international market, by allowing individuals to export rice not subject to SunRice's total supply chain control system, there is a risk that irreversible damage will be caused to the reputation of Australian rice. As the majority of NSW rice is exported, this risk far outweighs any individual benefits that may be obtained from the deregulation of the industry.

#### **4.3.2. WITHOUT VESTING WOULD A VIABLE RICE EXPORT MARKET CONTINUE TO PROVIDE BENEFITS FOR NSW GROWERS?**

**Terms of reference question C. *In the absence of rice vesting, would a viable rice export market continue to provide benefits for NSW rice growers?***

The critical driver for access viable export markets is the size of SunRice groups' operations. This scale and balance sheet strength enables SunRice to continue to build on 70 years' experience in supporting growers, developing and processing high quality rice products and building knowledge and relationships with the key international markets. It is the ongoing access to these markets that supports the value proposition for rice growers to remain in the industry.

In the absence of the current vesting arrangements the level of scale of operation that SunRice deploys in the Riverina rice growing regions will most likely diminish.

In relation to the question; "in the absence of rice vesting, would a viable rice export market continue to provide benefits for NSW rice growers?" The RGA is not convinced that anyone can answer it with any degree of certainty. However if competition to purchase NSW rice for export is allowed it is highly likely that SunRice's operational efficiencies will be impacted along with the range of Vesting benefits previously described.

The key point is why would you risk losing the equivalent of \$400 million dollars in direct payments to growers, suppliers, service industries and staff each year in the Riverina region and up to \$2 billion distributed throughout the NSW and Australian economy?

The RGA is adamant the risks associated with removing the current vesting arrangements are far too great.

#### **4.4. THE PERIOD OF EXTENSION FOR VESTING**

If this review supports the continuation of vesting, future consideration should be given to amending legislation so that the interval between reviews is extended for as long as practicable to provide growers with stability and certainty for the future.

### **5. CONCLUSION**

The RGA is proud to support Australian Rice Growers, advocating on their behalf to ensure the best outcome for their businesses. The RGA along with its branches across the Riverina rice region strongly support the continuation of the current rice marketing arrangements, specifically the Sole and Exclusive Export Licence currently held by SunRice.

**Responses to the terms of reference**

***"Do the benefits of rice vesting outweigh the costs to the community as a whole?"***

From the RMB verified data provided it is clear that the benefits from vesting far outweigh the costs. With an annual average benefit of \$59.8million minus the average annual cost of vesting we see a net benefit of \$59,270,000 per annum.

In addition there is no impact to the domestic consumer from rice vesting. The domestic market is open to all players and is one of the most competitive of any market in the world.

Clearly this net benefit demonstrates the importance of vesting to Riverina rice farmers, the broader industry and the rice communities.

***“ Are any net benefits (or the majority of these benefits) derived as a result of rice vesting alone?”***

As noted in response to Terms of Reference question A, for an average production year of around 600,000 tonnes of paddy delivered, the net benefit is in the order of \$59,000,000. This net benefit is entirely due to the current vesting arrangements. Of course a secure and consistent contribution of this magnitude will support at least in part a significant range of industry and community benefits including:

- Research Development and Extension (R&D);
- crop support;
- manufacturing, marketing and distribution R&D;
- operational efficiencies;
- security of investment into infrastructure;
- quality assurance implementation;
- grower price protection;
- buyer of last resort provision, and;
- a range of significant community benefits.

***In the absence of rice vesting, would a viable rice export market continue to provide benefits for NSW rice growers?***

The critical driver for access to viable export markets is the size of SunRice groups’ operations. This scale and balance sheet strength enables SunRice to continue to build on 70 years’ experience in supporting growers, developing and processing high quality rice products and building knowledge and relationships with the key international markets. It is the ongoing access to these markets that supports the value proposition for rice growers to remain in the industry.

In the absence of the current vesting arrangements the level of scale of operation that SunRice deploys in the Riverina rice growing regions will most likely diminish.

In relation to the question; “in the absence of rice vesting, would a viable rice export market continue to provide benefits for NSW rice growers?” The RGA is not convinced that anyone can answer it with any degree of certainty. However if competition to purchase NSW rice for export is allowed it is highly likely that SunRice’s operational efficiencies will impacted along with the range of Vesting benefits previously described.

The key point is why would you risk losing the equivalent of \$400 million dollars in direct payments to growers, suppliers, service industries and staff each year in the Riverina region and up to \$2 billion distributed throughout the NSW and Australian economy?

The RGA is adamant the risks associated with removing the current vesting arrangements are far too great.

The current vesting arrangements have also highlighted how they support the integrated Riverina rice industry to supply rice for Australians during times of crisis. Rice was originally grown in Queensland in

the latter half of the 19<sup>th</sup> Century to supply a staple food to the growing population. In 1914 trials began to grow rice on the Murray River and then in the 1920's rice was introduced to the MIA. During the 2nd World War rice growing was introduced to the Tullakool irrigation district (now part of the Wakool district) in the Murray to support the war effort. The driver to establish rice growing and milling in these regions was to supply a staple food to Australians. The impacts of COVID-19 and the natural reaction by governments of key rice exporting nations to stop or limit exports of rice and reserve supplies for their own populations demonstrates how Australia's food security can be impacted.

Through consultation with our members and the broader community we have heard that the support provided to rural rice communities both economically and socially is of the utmost importance to them. The current vesting arrangements have no negative impacts on Australian consumers due to the deregulation of the domestic market.

Furthermore, the RGA strongly believes that the benefits can only be achieved by restricting export competition. Vesting provides stability and continuity for NSW rice growers operating in a highly distorted global rice market, where foreign government intervention restricts NSW rice from freely accessing markets. In addition, the premium achieved through SunRice's investment branding, marketing and research and development, and scale efficiencies SunRice is able to obtain through freight, storage and processing, ensure growers receive the best possible return for their product. The significance of this price premium to the local communities in the Riverina cannot be understated. Through the injection of wealth, the employment of over 600 staff in NSW as well as the engagement of local service providers, SunRice plays a critical role in sustaining the regional centres of Griffith, Leeton and Deniliquin, as well as many smaller, but no less important communities, like Coleambally, Finley, Hay and Wakool.

Previous reviews have found that the benefits of Rice Vesting for NSW do outweigh the cost. For this reason the Rice Vesting arrangements should be continued. We acknowledge the recommendations made following 2016 review and acknowledge that the RGA participated in scenarios outlined to expand the NSW rice region to include the Northern Rivers. We note that nothing has changed since the previous review in 2016 that would warrant the NSW Government altering the current arrangements.

The RGA appreciates the time commitment from NSW DPI review team to brief rice growers and stakeholders on this review. We thank the NSW DPI and CIE Consultants for their recent participation in RGA Branch meetings 12<sup>th</sup> – 15<sup>th</sup> July, 2021. We would also like to acknowledge the input from the NSW Productivity Commission through this process.

Thank you for the opportunity to participate in this review and provide a submission. If you require clarification about any of the matters raised in this submission, please do not hesitate to contact the RGA team.

## 6. CONTACTS

For further information please contact:

**Rob Massina**  
**President**  
Telephone: 0448 999 288  
Email: rmassina@rga.org.au

**Graeme Kruger**  
**Executive Director**  
Telephone: 0467 661 655  
Email: gkruger@rga.org.au