

# ABARES Report on the Findings of the NSW Rice Vesting Review

RGA Submission – February 2023



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### OPENING COMMENTS

We welcome the opportunity to provide feedback to ABARES as part of its inquiry into the NSW Rice Vesting Review of 2021. We believe a number of crucial matters were either overlooked, or underestimated, as part of the 2021 Review conducted by the NSW Department of Primary Industries. We consider it vital that these matters be raised here, in order to ensure the NSW rice industry isn't unfairly impacted.

The positions put forward in this submission reflect the current views of our membership. In particular, we will provide evidence to support the following:

- Vesting is essential to the future of NSW rice production and must remain in place.
- Stakeholder views on the importance of vesting were poorly reflected in the 2021 Review.
- Vesting governance – including transparency - reflects jurisdictional best-practice in NSW.
- All NSW growers have always had the same access to seed, research and development.
- The 'buyer of last resort' provision offers irreplaceable certainty to growers and buyers.
- The domestic market hasn't been fully explored, which can be undertaken in a very low-risk manner.
- Other matters of importance to government, that the 2021 Review completely missed.

### ABOUT THE RICEGROWERS' ASSOCIATION OF AUSTRALIA (RGA)

The RGA is the collective voice of rice growers in Australia. We represent the interests of around 1000 voluntary members, equating to roughly 98% of Australia's rice producers. Our main objective is to provide our 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.

Our members direct us in all of the policy and advocacy work that we do. They were instrumental in formulating the views and opinions put forward in this submission.

The RGA aims to deliver policy-based advocacy for our members, focusing on three key areas: (i) water; (ii) productivity and industry affairs; and (iii) environmental sustainability.

One of the main factors influencing the viability of our members' businesses, their communities and their industry is the superiority of current rice marketing arrangements in NSW. Both RGA and its Central Executive are driven to ensure the state's rice marketing arrangements deliver the best possible return to growers.

## THE RGA'S POSITION ON VESTING

The RGA **strongly supports the continuation of vesting** based on an 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 all eight of our branches and is a key recommendation that has been put forward by RGA's Productivity and Industry Affairs Policy Committee.

Critically, this position is endorsed by formal motions received from each of the RGA's eight branches, as raised at each of their respective 2021 Annual General Meetings (**Attachment A**).

This position is founded on grower lived experience, and understanding that:

- The benefits of vesting to the community vastly outweigh any speculative 'costs'.
- The price premium for rice is only achieved through the restriction on export competition.
- Access to premium export markets – at a scale that is worthwhile to SunRice while also profiting growers – will likely disappear if current vesting arrangements are terminated.

## STAKEHOLDER VIEWS ON THE FINDINGS OF THE 2021 REVIEW

The majority of feedback we received from our members expressed disappointment about how poorly the importance of vesting was reflected in the 2021 Review. In addition, the assumption in the findings that impacts could easily be 'absorbed' if vesting was removed appear to have no solid evidence or grounding in reality.

Our members experience – every single day - the net benefits provided by vesting, both to themselves and their communities. As a vital tool for business and industry sustainability, they also see the financial rewards year in and year out.

These stakeholder views are reinforced through the RGA's own assessment of critical vesting benefits, such as: (i) the Freight Scale Advantage; (ii) Premium Market Access; and (iii) certainty around continued, and long-term Investment in RD&E.

### Freight Scale Advantage

Freight cost savings provide SunRice with a competitive edge over other participants in many of its key markets, including New Zealand; Pacific Nations; and the Middle East. The demand for high quality medium grain rice in these markets means that SunRice's only main competitor is California. SunRice enjoys a freight advantage over California in the markets listed mainly due to their geographic proximity.

Vesting allows SunRice to capitalise on its freight advantage by selling product into these markets on a landed price basis (i.e., that's competitive against the landed price for US rice). If vesting was removed, SunRice wouldn't have the supply or certainty of quality to service these markets.

In addition, individual rice-growers could not service these markets on their own. This is illustrated through the fact that California already has multiple competitors, so their product

is marketed on an export price basis. By extension, if multiple players were to export rice from NSW, they would likely also be forced to sell their rice on an export price basis rather than a landed price basis. This loss of freight scale advantage would not only negatively impact NSW growers, but also the NSW and Australian economies.

By capitalising on the Freight Scale Advantage, current vesting arrangements ensure the NSW rice industry can maximise either the size or scale of each export consignment on an 'as needs' basis. 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 from 2011-12 to 2019-20 was \$9.2 million/year (**Table 1**). The annual average per tonne of rice delivered for the period 2012-13 to 2019-20 was \$29/tonne.

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 1: Freight benefits derived from the scale of operations.**

Also worthy of note is the disruption to shipping caused by COVID-19. The connected shortage of available containers meant that the cost per container shipped rose dramatically. The scale of SunRice operations and the skill set within the business enabled exports of rice to continue, albeit at a higher cost. As a result, when the freight scale advantage is reviewed for 2021, it will most likely indicate an even higher advantage than at any other previous time.

### Export Price Premium

The average yearly export price premium delivered from vesting for the period 2011-12 to 2019-20 was \$50.6 million/year. 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.**

In total, the RGA figures confirm that the combination of the industry's Export Premium and the benefit from the Freight Scale Advantage results in a total average annual benefit of \$59.8 million/year or \$216.00 per tonne.

## Research and Extension

It was disappointing to see the 2021 Review direct unfair and unfounded criticism at the RD&E efforts of the NSW rice industry. All NSW rice-growers have the same access to seed, research and development. Critically, expanding extension support into the NSW Northern Rivers is also emerging as a key area of future focus. AgriFutures Australia also has regular 'open calls' for R,D&E, which provide opportunity for anyone to submit a proposal for funding support.

Rice research and development plays a key role in improving irrigation efficiency – which in turn improves industry resilience and productivity, particularly in the face of ongoing water reform and climate variability.

As evidence of their endorsement of the industry's stellar reputation for research and development, in 2019 growers actually voted in favour of an increase of their R&D levy from \$3 to \$6 per tonne. Changes associated with this came into effect in July 2020.

Industry stakeholders have agreed to use the levy to develop a plan for, and invest in, transformational change. The AgriFutures Rice Program focuses on ensuring the rice industry is a global leader for improved water use efficiency with four key objectives:

- Optimised genetic improvement.
- Agronomy and farming systems.
- Coordinated industry extension.
- Strengthened industry capacity.

Our 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>1</sup>

For this reason, SunRice has chosen to invest in research and development that adds further value to its rice across all aspects of production, manufacturing, marketing and distribution.

SunRice's ability to invest large sums of money – over a long-term timescale – into research and development is in many ways solely reliant upon the existence of vesting. Vesting provides SunRice the confidence to make larger than normal investments, even when the returns on those investments won't be immediately realised. Removal of vesting would instantly introduce significant uncertainty around future supply quantity and quality, which makes all larger and longer-term RD&E investments a much riskier and less desirable proposition.

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<sup>1</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>>.

## Production R&D

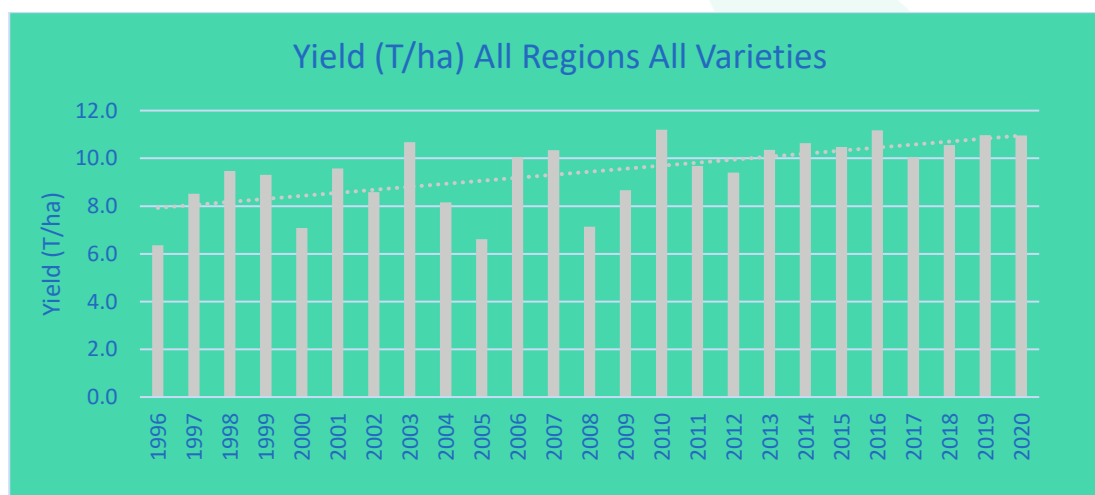
Our industry is committed to providing growers with rice varieties that are known to produce high quality grain. These varieties are amongst the most productive in the world. Their production is supported by R&D-developed extension, which delivers ongoing improvements in best management practice, while also delivering production and environmental benefits.

SunRice is a key financial partner in our industry's Rice Breeding and Grain Quality Program, alongside AgriFutures Australia and the RGA. This arrangement has now been 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. RRAPL also carries out a portfolio of other R&D projects to deliver higher yields, more efficient water usage and better market returns.

The success of the programs described above requires investors to have the confidence to make long-term, high-risk investments. The presence of vesting arrangements is fundamentally what drives this confidence.

Evidence of the success of this vesting-driven investment framework is also readily available. For example, for the five-year period between Crop2016 and Crop2020, NSW rice yields averaged 10.6 tonnes per hectare. This is an increase of 0.4 tonnes per hectare since the last vesting review in 2016 (**Figure 1**).



**Figure 1: NSW rice yields per hectare 1996 to 2020.**

One of the key R&D investment outcomes that's currently benefitting all NSW rice-growers is higher yields. The development of more productive and quicker maturing rice varieties is substantially improving grower returns, while also reducing water usage. This ensures that NSW growers remain the most efficient and productive in the world, while also delivering on important environmental and sustainability outcomes.

The environmental sustainability of our industry is something SunRice treats with the highest regard and has encouraged further investment – beyond straight production outcomes into the development of a sustainability framework. Known as the “RiceGrowers’ Promise” this framework is being developed in partnership with the NSW Government, through funding from the National Landcare Program.

If vesting were to be removed, it’s highly unlikely that any new exporting entities would have the economy of scale to invest in these types of programs. In addition, in the face of increased uncertainty in supply quantity and quality, SunRice may choose to cease investment in its environmental programs should vesting cease to exist.

### Crop Support

Crop support is another ‘premium’ service that vesting allows the industry to provide to rice growers. The Rice Extension Team works with growers to monitor their crops throughout the growing season. It also delivers a range of agronomic extension tools, including links to commercial researchers. This approach leads to rapid uptake of research findings and new technology and 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.

This service, and the independent verification of all advice utilised by the Extension Team is only possible due to the integration of the Riverina rice industry. Current vesting arrangements assist SunRice to operate at sufficient scale to allow it to invest in this service.

### Manufacturing, Marketing and Distribution R&D

In addition to production-specific R&D, SunRice has invested heavily into: (i) market research; (ii) developing new – and improving existing – manufactured food products; (iii) processing systems; and (iv) distribution networks. This has resulted in the implementation of a range of highly sophisticated and innovative technologies. In addition, it has allowed SunRice to establish the Australian product as one of extremely high quality and very good value. SunRice works hard to ensure its brands are responsive to changing consumer demand.

A new entrant to the export market couldn’t deliver the level of commercial innovation that SunRice is delivering. It’s also highly unfair that any new entrant could essentially – without any effort on their own part – be able to ride on the coattails of SunRice’s longstanding efforts.

### **NSW PC and CIE Report - Assumptions**

The RGA has concerns with the approach/methodology taken in the CIE report, which appears to include many assumptions with scant explanation or justification. On that basis, we consider there is no demonstrated basis to conclude that export price premiums cannot be attributed to vesting and the SEEL.

The report should also have considered export challenges for rice and how it’s actually traded globally. There are many factors such as, a lack of international trade framework for rice, foreign government single buyer desks, trade barriers, quotas, subsidies, counterfeiting and corruption, all of which support the need to retain vesting and the SEEL.

The following comments are made in relation to the specific questions ABARES is seeking feedback on:

## GOVERNANCE ARRANGEMENTS AND TRANSPARENCY

Vesting governance – including transparency - reflects jurisdictional best-practice in NSW. The State's Rice Marketing Board (RMB) operates under the highest standards of corporate governance. The RMB Board further ensures these standards are met; and we note that one of the current Board members has previously held senior roles in the NSW public service. To our knowledge, RGA is unaware of there being any evidence of the RMB inappropriately handling any real or perceived conflicts of interest. Furthermore, following the 2016 review into vesting by the NSW Department of Primary Industries, a governance review of the RMB was undertaken by an independent entity. The findings showed the RMB operates at the highest level of governance standards.

Importantly, the RMB encourages a competitive domestic market for rice – which is where the real growth opportunities for industry competition lie. The RMB has systems and processes in place to ensure fair domestic market participation for both growers and buyers.

To illustrate, the RMB operates an *Authorised Buyers' Licencing System* that is uncomplicated and transparent. It places minimal requirements upon new market entrants, while also ensuring all appropriate governance/transparency requirements are fulfilled. For example, the RMB will review all Authorised Buyers' annual returns, and undertake annual rice crop audits to ensure compliance with relevant legislation.

## RD&E ACCESS

All NSW growers have always had the same access to seed, research and development. When it comes to these benefits, everyone in the industry has equal opportunity. In addition, while rice extension is currently concentrated in the Riverina, expanding that access into the Northern Rivers is emerging as a key area of future RD&E focus.

At present, any grower can request seed, and will receive the same access and pricing irrespective of their location. All growers are levy payers and as such, have full access to rice R&D. This is because it is their levies that provide the funding to the AgriFutures Rice RD&E Program. As levy payers, all growers can also provide input into how those funds are invested.

Looking forward, *Rice Breeding Australia* has been established as a not-for-profit company, with membership that includes AgriFutures Australia, SunRice and the RGA. *Rice Breeding Australia* while a not-for-profit entity, still adopts a strong commercial focus on its activities, with plans to introduce the latest breeding technologies. This will accelerate the development of new varieties, including those that have increased water productivity and improved cold tolerance.

*Rice Breeding Australia* will also continue the important task of helping growers to supply rice to discerning consumers, and in a way that capitalises on market requirements. Once more



it's the economy of scale that occurs through rice vesting that allows these activities to deliver a higher price to growers, compared to if vesting wasn't in place.

## **'BUYER OF LAST RESORT'**

SunRice is the buyer of last resort, which obligates it to purchase every last tonne of rice produced in NSW. This obligation requires the rice to be purchased at the variety-specific price, as long as it's of merchantable quality. No other similar industry in Australia offers this kind of certainty to its growers. As our climate becomes more volatile, this is another type of 'premium' service that can be afforded to growers as a result of our vesting arrangements.

Similarly, vesting allows SunRice to purchase rice under fixed price contracts or into a pool. Both arrangements provide price certainty and competitive returns for all growers. SunRice pays for rice through a series of periodic payments, that serve to smooth farm cash flow. At present, SunRice also has the flexibility to offer a payment program that brings forward future payments if growers require earlier than normal cash flow.

The incentive for SunRice to provide such services is largely due to the fact that it has certainty around the volume of rice it will receive, and the quality of that product. Both factors are expected to become substantially less certain if vesting is removed, resulting in a significant disbenefit for both growers and SunRice.

## **OTHER ISSUES**

### Orderly Transition was Missed in the 2021 Review

An obvious omission from the 2021 Review, and yet one which would be critical for the NSW Government, is how transition away from vesting would be managed. To date, we've received no advice as to what entity, or regulations, would be required to ensure the orderly marketing of quality rice after the removal of vesting and disbandment of the RMB.

Clear lessons from the deregulation of Australian wheat and dairy demonstrate the need to appropriately fill the marketing gap created, to ensure growers are protected from unscrupulous traders.

Concerningly, deregulation of Australian wheat saw numerous export markets lost, and the nation's reputation as a reliable exporter of quality produce seriously damaged. The recovery of markets and international trust has only occurred through the implementation of grain quality standards and receival testing that meets market requirements.

### Guaranteed market access, payment and mental health.

The RGA members regularly comment on their frustration in securing an appropriate price for the other commodities they produce, along with trust in the buyer to pay in full and on time. The frustration and stress this causes often leads to mental health issues farming family members experience.

### Australia's Domestic Rice Market Has More to Offer

As we've noted throughout this submission, growth in Australian rice is not in any way tied to the ability to export. Much attention is being given to how we can expand and strengthen our domestic markets. This is occurring across the rice industry, from RMB's marketing activities to forward-looking RD&E. Crucially, by leveraging the benefits offered by vesting, our domestic market can grow in a relatively low-risk way, especially when compared to other commodities.

To illustrate, in the Murray-Darling Basin in particular, we've seen the rapid movement of capital to establish new agribusinesses, typically without a long-term business plan or detailed assessment of the area's suitability for the particular commodity. This is now leading to concerning negative outcomes, where not only is the viability of new businesses at risk, but there's also been significant disruption to existing industries in a way that benefits no one.

For domestic rice expansion, this wouldn't be the case as all growth would be informed by the industry's extensive R&D knowledge, as well as being supported by its more than capable extension expertise. Vesting could actually offer a 'premium' service to support domestic expansion, something that isn't available to other industries where vesting isn't present.

### Removal of vesting and changes to fiduciary responsibility

The removal of vesting would lead to a change of focus by the SunRice board. They would no longer need to ensure that all regulatory requirements are met before focusing on the viability of the company and returns to shareholders. Acting as a buyer of last resort and maintaining access to remote receival sites would no longer be in the best interests of SunRice and its shareholders. If growers lose access to these services from SunRice there will be a significant impact on grower returns and confidence to participate in the industry.

### Northern Rivers Production

The RGA strongly insist that stories and propositions for Northern Rivers future production relied upon by CIE in their Report are unrealistic and CIE's use of that information is overly optimistic giving inaccurate weighting to it.

The inception of rice production occurred in NSW Northern Rivers at the same period of time as NSW Riverina. Riverina flourished, whilst Northern Rivers was for many decades in hiatus, a constant loser to competition from other summer cropping enterprises, mainly the rotation of soybeans with sugar. Natural impediments to sustainable rice yields and reliability in Northern Rivers are at play; low solar radiation (due to cloud cover) and intermittent rainfall see yields less than half the Riverina average and realistic potential for wholesale crop wipe-outs. In this factual context, claims by the CIR Report that producer choices are in any substantive way influenced by the legal framework for international rice marketing or impact rice profitability in that region is a shallow, highly unconvincing assessment.

Before any weight by CIE of the Northern Rivers is considered toward the question of vesting, a sober understanding of the region is a must. The RGA have again visited the Northern Rivers region since the devastating 2022 floods, which took away most of the 2022 crop. We found common ground with producers who conceded little prospect of Northern Rivers growers obtaining higher returns in export markets. They spoke of the great challenges in reaching a consistency and volume to retain domestic markets, where they do enjoy a premium such that

per tonne pricing to growers is equivalent to Riverina growers. Indeed the Northern Rivers growers expressed their desire not to upset the orderly international marketing of rice enjoyed by an overwhelming majority of Australian rice growers of scale. It was that those growers and their representatives who did not directly know what interest they had in export, just that it was there as a possibility.

#### Closing Remarks

The rest of the world look in envy at our equitable, orderly, bespoke arrangements for international rice marketing. Sources in the United States well known to the Australian rice growing community are aghast that in the dog-eat-dog world of international rice trade, with such a premium to Australian producers, the matter of vesting was even to be reviewed. 'What more proof do they need' seemed a pertinent observation.

CIE proposes an extraordinarily onus of proof upon the defence of vesting arrangements. Throughout its 2021 Report, CIE routinely dismiss fact and known commercial outcomes for speculation. CIE take the liberty of insisting commercial evidence in favour of present arrangements require some standard beyond any doubt, while taking contrary unproven assertions as facts at some other low standard of possibility. This ignorance in favour of speculation is bewildering and disturbing to those of us who care and have genuine long-term interests in the best outcomes for our industry.

**Peter Hermann**  
President

**Graeme Kruger**  
Executive Director

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**Attachment A:** Branch motions supporting maintenance of current vesting arrangements.

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**RGA Motions in Support of the Rice Marketing Arrangements:\*\***

- **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."

*\*\*Passed unanimously at the 2021 AGMs held from 12 – 15 July; and the RGA Central Executive meeting held 20 July 2021.*

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