



Ricegrowers Limited  
Submission in Response  
to the Productivity  
Commission's Draft  
Report on the Regulation  
of Agriculture

Dated 18 August 2016

---

## 1 Overview

This submission is provided by Ricegrowers Limited, trading as SunRice (**SunRice**), in response to the Draft Report on the Regulation of Agriculture issued by the Productivity Commission (**Commission**) on 21 June 2016 (**Draft Report**).

This submission sets out SunRice's observations in relation to the draft recommendation to repeal the *Rice Marketing Act* 1983 (NSW) (**Act**), with the consequence that rice produced in NSW would no longer vest in the Rice Marketing Board of NSW (**RMB**) and export rice would no longer be the subject of a sole and exclusive export licence (**SEEL**).

This draft recommendation is based on a high level desktop analysis undertaken by the Commission, which appears primarily to have involved updating a report that Australian Food and Agriculture Company Limited (a subsidiary of the Bell Group) commissioned from Deloitte Access Economics in 2012 (**AFAC Deloitte Report**). This report was itself heavily criticised during the NSW Government's Department of Primary Industries (**DPI**) 2012 rice vesting review process.

As a result of this high level work, the Commission has expressed a draft view that it is "*unclear whether Australian rice exporters receive a price premium for their rice*".<sup>1</sup>

### There are material flaws with the process leading to the Commission's draft conclusions and recommendation

SunRice has significant concerns with the Commission's draft conclusions and draft recommendation. In particular:

- The draft conclusions and draft recommendation appear to have been reached without the benefit of any detailed consultation with SunRice, the RMB or other key stakeholders in the NSW rice industry. This itself is extraordinary, given the significant impact the Commission's recommendation could potentially have on rice growing communities in NSW if implemented solely on the basis of a high level desktop review.
- The Commission appears to be undertaking a review of the rice vesting arrangements that is separate, but parallel, to the review currently being undertaken by the DPI, but without the benefit of specifically focused terms of reference, objectives or any real consultation with the rice industry. The DPI terms of reference are more focused on actual outcomes within the NSW rice industry (as distinct from a high level desktop review), and allow for consideration of a broader range of costs and benefits associated with vesting and the SEEL.
- The Commission's analysis is largely based on work undertaken to update the AFAC Deloitte Report. The methodology and comparisons adopted in AFAC Deloitte Report have previously been the subject of heavy criticism. SunRice would have been pleased to provide information about these key issues to the Commission had it been approached as part of the draft review process. In summary, the AFAC Deloitte Report seeks to compare *end market returns* (sales from Australia) with *farm gate prices* in California in circumstances where:
  - there is incomplete data for the US (it excludes the cash market which accounts for about 50% of farm gate sales);
  - a significant proportion of Californian and Australian rice are sold into different markets – about 40-50% of Californian rice is sold into the higher yielding US domestic market. In contrast, Australia's export sales are to lower yielding and more competitive world markets; and

---

<sup>1</sup> Draft Report, page 409.

- the comparison of end returns from Australia with farm gate prices in California also critically ignores vast differences in supply chain costs. Sales from Australia to the Pacific and Middle East involve different costs than sales from California (particularly the 40-50% of Californian rice that is sold domestically). Sales from California involve different distances, labour rates, logistics costs, domestic agricultural support policies and economies of scale (with the US crop being significantly larger even in non-drought years in Australia).

With these limitations, a real question arises as to whether the comparison purportedly undertaken in the AFAC Deloitte Report (and updated by the Commission) has any value or relevance.

- While the Commission appears to acknowledge that there are some data limitations inherent in the AFAC Deloitte Report, the Draft Report itself appears to proceed on the basis of an incomplete assessment. The Draft Report inexplicably excludes from its analysis some of the export markets in which SunRice achieves the highest premiums for NSW growers, and persists with some of the distorted comparisons contained in the AFAC Deloitte Report. In contrast, the premiums referred to in the RMB's annual reports have been independently verified by Grant Thornton Corporate Finance Limited (**Grant Thornton**) based on actual export data for each country of export.
- The Commission does not purport to undertake any detailed assessment of the scale, efficiency, investment, community or other public benefits which result from or are increased by the current vesting arrangements and SEEL. These are clearly key issues and, for this reason, form part of the current review by DPI.

### The vesting arrangements deliver substantial benefits to NSW growers and the NSW economy

SunRice considers that the current vesting arrangements and SEEL:

- Deliver significant price premiums for NSW growers, compared to the prices that would be achieved in international markets without those arrangements. These premiums – which have been calculated using a more appropriate methodology than the AFAC Deloitte Report, and are based on actual country-by-country export data – have been independently verified by Grant Thornton on behalf of the RMB (see Table 1 below).

**Table 1: Price premiums FY2013 – FY2015 (\$A)**

	FY2013	FY2014	FY2015	Total
<b>Price premium / tonne</b>	\$56.7	\$82	\$99.40	-
<b>Total price premium</b>	\$65.9 million	\$95.2 million	\$82.4 million	<b>\$243.5 million</b>

*Source: RMB Annual Reports to Growers.*

- Enable SunRice to capture significant supply chain and freight scale advantages which are shared with NSW growers in the form of higher returns. Those same advantages, which have been acknowledged by shippers, would be available to a much lesser extent in the absence of the vesting and SEEL arrangements.
- Enable SunRice to deliver other benefits to the NSW rice industry and rice growing communities, including significant innovation and research and development, investment in supply chain infrastructure, and financial support (particularly in drought seasons) to ensure the long term viability of the Australian industry. It is unlikely that this level of investment in the industry, research and

development and support for rice growing communities would occur if the current vesting arrangements and SEEL were removed.

SunRice has significant difficulty with any recommendation which emanates from a review that does not involve any consideration of these key matters.

### **The Commission's draft recommendation is inappropriate**

SunRice does not consider it appropriate for the Commission to make a draft recommendation that would potentially have an enormous impact on the rice industry and NSW rice growing communities in circumstances where:

- it has not consulted with, or obtained real world feedback from, key stakeholders in that industry and in NSW rice growing communities;
- its review appears to have involved only a high level desktop review, based primarily on internal work undertaken to update a report prepared four years ago at the request of a person seeking removal of the vesting arrangements for individual commercial reasons and using a methodology and comparisons that have been heavily criticised;
- the Commission's updating of that report fails to include key export data, which has the effect of significantly distorting its assessment of pricing premiums;
- the Commission's draft report does not appear to involve any meaningful assessment of the industry and community benefits which also provide an important policy underpinning for the Act; and
- the NSW DPI is currently undertaking a parallel, and more comprehensive, review of the vesting arrangements and SEEL, within clearly defined Terms of Reference and involving genuine engagement with rice industry participants and rice growing communities.

If the Commission continues to wish to make some form of recommendation in relation to the Act, SunRice considers that its recommendation should be that DPI completes its current and more detailed review of the vesting arrangements in NSW, and reports the findings of its review.

---

## **2 The Commission's current review**

### **2.1 Very limited consultation with the NSW rice industry**

The Commission's draft conclusions and draft recommendation have been reached without the benefit of any detailed consultation with SunRice, the RMB or other key stakeholders in the NSW rice industry.

The Issues Paper published by the Productivity Commission on 22 December 2015 did not refer to the NSW rice industry and SunRice did not anticipate that the vesting arrangements and the SEEL would form part of the Commission's inquiry. Indeed, SunRice – Australia's largest rice company – only became aware that the vesting arrangements were the subject of any consideration by the Commission after publication of the Draft Report.

SunRice also understands that the Commission did not receive submissions from the RMB (being the main industry regulatory body for rice in NSW) or from rice growers.

This means that the Commission has made draft recommendations in relation to the continuation of the vesting arrangements and the SEEL in the absence of any submissions from – or consultation with – the parties that will be the most affected by the recommendation (if adopted).

It is completely inappropriate for the Commission to make draft recommendations which would have far reaching consequences for the Australian rice industry and regional communities without undertaking any real world or proper consultation with the industry.

This is particularly the case when the very subject matter of the draft recommendation is already the focus of a more detailed, rigorous and consultative review process in NSW.

## **2.2 The current review by DPI**

From the Draft Report, it appears that the Commission is undertaking a separate and parallel review to the vesting review currently being undertaken by the DPI. The DPI terms of reference are specifically focused on the net benefits of vesting arrangements and allow for consideration of a broader range of costs and benefits associated with vesting and the removal of vesting arrangements.

The NSW review involves an extensive consultation program with a range of participants in the industry and members of rice growing communities. DPI has undertaken proactive and public consultation meetings in the rice-growing regions of NSW, and attended industry events (such as the Ricegrowers' Association of Australia (**RGAA**) branch annual general meetings and conference, as well as SunRice stakeholder and shareholder update meetings).

Vesting is a policy mechanism of the NSW Government based on the idea that providing a single statutory authority (the RMB) with the legal right to control the marketing of rice produced in NSW will yield net benefits to the NSW rice industry and the general community. Accordingly, the terms of reference and the objectives of the NSW review relate to whether the current vesting arrangements and the SEEL yield net benefits to the NSW rice industry and the general community.

The rationale for vesting as a policy mechanism depends on price premiums being earned for NSW rice on international markets. However, the DPI review also considers other benefits that vesting arrangements and the SEEL provides for the NSW rice industry and the general community.

For these reasons, SunRice considers that the review currently being undertaken by the DPI is the appropriate forum for considering whether the continuation of the vesting arrangements and the SEEL is justified.

---

## **3 The AFAC Deloitte Report contains significant flaws**

### **3.1 Methodology**

In its Draft Report, the Commission concludes that some price premiums may exist in New Zealand, but that these appear to be offset by price detriments in other markets. The Commission's preliminary analysis also indicates there may even be some overall price detriment for Australian rice exporters.<sup>2</sup>

However, the Commission's analysis and these preliminary conclusions appear to rely exclusively on internal work undertaken to update the AFAC Deloitte Report – a report prepared four years ago at the request of a person seeking removal of the vesting arrangements for individual commercial reasons, which used a methodology and comparisons that have been the subject of heavy criticism.

---

<sup>2</sup> Draft report, page 415.

**(a) The AFAC Deloitte Report**

The AFAC Deloitte Report seeks to compare the unit value of Australian rice exports to the farm gate price for Californian rice exports for the period from FY2002 to FY2011.

As set out in SunRice's response to the DPI as part of the 2012 Rice Vesting Review, the AFAC Deloitte Report contains a number of fundamental flaws, including that Californian farm gate prices are not an appropriate comparator for the purposes of determining the price premiums achieved by SunRice for NSW rice growers.

**(i) Californian and Australian pool prices are not readily comparable**

SunRice's prices represent an equal price paid to all growers through a common pool (subject to adjustments for quality etc.). In contrast, the Californian market is operated and priced through a number of pools operated by industry participants and complemented by a significant cash market which operates through exchanges and private sales. This cash market can account for approximately half of the volume each year. Californian pool prices do not include cash market sales and therefore may overstate the actual return to a Californian rice grower given that cash sales are generally at a lower price than pool sales.

To derive a Californian paddy price capable of comparison with Australian sale prices, it would be necessary to understand the volume weighted average pricing across all pools, exchanges and private treaty transactions for export sales. This information is not readily available, and for part of the market (private treaty transactions) is not available at all.

**(ii) Domestic US sales do not provide an appropriate basis for any comparison**

Approximately 40-50% of the available Californian crop is sold into the typically higher yielding US domestic market. In contrast, approximately 80% of the Australian crop in an average (non-drought) year is supplied into lower yielding and more competitive international markets. As Californian prices at farm gate involve a weighted average of sales (both domestic and international, but excluding information as set out in paragraph (i) above), any simple comparison is misleading and does not provide a sound basis for assessing relative prices achieved in international markets.

**(iii) There are significant differences in supply chain costs that affect grower returns**

Returns at farm gate are a function not only of prices achieved in international markets, but also the different supply chain costs associated with delivering rice to end users.

There are significant structural differences between the Californian and NSW supply chains. These differences include distances to port, labour rates and penalty rates which are significantly lower in the US, charges for rail, port, utilities and sea freight, supply chain infrastructure efficiency between mill and port and different tax regimes.

These structural externalities are exacerbated by the fact that the Californian industry is approximately twice the size of the Australian industry (even in non-drought years in Australia) and therefore enjoys significant scale economies which can further impact on returns.

These factors demonstrate that comparisons between Californian and NSW prices do not compare like with like and do not provide an adequate basis on which to assess whether SunRice is achieving price premiums for NSW growers. Any failure to consider these matters is therefore a material omission from the analysis which underpins the Commission's draft recommendation.

In updating the analysis in the AFAC Deloitte Report, the Commission calculated price premiums by subtracting the Californian price from the Australian export price, and weighted by the volume of trade in each year across the two time periods (to compensate for variability in production). The Commission also made certain further adjustments to account for the value added by packaging and transporting rice to the point of export and differences in cost, freight and packaging. However, these adjustments do not address the fundamental flaws outlined above in comparing to Californian farm gate prices.

#### **(b) Data limitations in updating the AFAC Deloitte Report**

Further challenges also arise from the fact that the Commission's analysis excludes key data.

The Draft Report involves the Commission making a draft recommendation on the basis of pricing data relating only to the Middle Eastern and North Africa (MENA) region (encompassing 25 countries), and excluding from its analysis export markets in which SunRice achieves the highest premiums (e.g. in the Pacific Islands).

This issue arises because the Draft Report relies only on an update to the AFAC Deloitte Report, which uses global average data rather than individual country information. The Commission itself acknowledges that:<sup>3</sup>

*"... a weakness with ... [Deloitte's] type of analysis is that it relies on global averages, rather than individual country data (NSW Government 2012). SunRice is the only exporter of rice from Australia, and the Australian Bureau of Statistics maintains commercial confidentiality by not publishing export data for each destination country."*

However, this acknowledgement does not appear to have prevented a draft recommendation with potentially far-reaching consequences, based on incomplete and selective data.

---

## **4 Conclusion**

It appears from the Draft Report that the Commission has a pre-disposition to the removal of all vesting or potential vesting arrangements in Australia (e.g. in the rice, potato and sugar industries). However, SunRice considers that the Commission's desktop review and any pre-disposition that it may have does not provide an adequate basis for making a recommendation that would potentially have far-reaching consequences for an important Australian industry, NSW growers and NSW regional communities.

This is particularly the case in circumstances where:

- the Commission has not undertaken any real world consultation with the people who would be affected by its recommendation (which would clearly better enable a consideration of policy settings in the NSW rice industry on their merits); and
- the Commission's review involves a continuation of previously incorrect and inappropriate comparisons.

---

<sup>33</sup> Draft Report, page 415.

If the Commission continues to wish to make some form of recommendation in relation to the Act, SunRice considers that the recommendation should be that DPI continues to undertake its review having greater regard to consultation with the industry, NSW regional communities affected by the rice vesting policy, and a full consideration of the benefits to NSW growers and those communities.

**Ricegrowers Limited**  
**18 August 2016**