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Productivity Commission

PRODUCTIVITY COMMISSION

INQUIRY INTO REGULATION OF AUSTRALIAN AGRICULTURE

MR P LINDWALL, Presiding Commissioner
MR K BAXTER, Commissioner

TRANSCRIPT OF PROCEEDINGS

AT MERCURE WAGGA WAGGA, WAGGA WAGGA
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MR LINDWALL: Good morning. Welcome to the public hearings for the Productivity Commission Inquiry into the regulation of agriculture. My name is Paul Lindwall. I'm the Presiding Commissioner for the inquiry, and my fellow Commissioner here is Ken Baxter.

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The inquiry started with a reference from the Australian Government late last year and covers regulations that have a material impact on the competitiveness and productivity of Australian agriculture. It has examined regulations at all levels of government.

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We released an issues paper in December last year, and have talked to a range of organisations and individuals with an interest in the issues. We also released a draft report on 21 July and have received over a hundred submissions and more than 1,000 personal responses and views since the issues paper.

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We are grateful to all of the organisations and individuals who have taken the time to meet with us, prepare submissions and appear at these hearings. The purpose of these hearings is to provide an opportunity for people to provide comment and feedback on our draft report.

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Today is the third hearing for the inquiry. We will be conducting hearings in Sydney tomorrow, Canberra next Monday, Toowoomba on Tuesday, Brisbane Wednesday, and Townsville on Thursday. Formal submissions to the draft report are also invited, preferably by the end of August. I shouldn't say they necessarily have to be formal, it's just submissions.

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We will then be working towards completing a final report to be provided to the Australian Government on 15 November. Participants and those who have registered their interest in the inquiry will automatically be advised on the final report's release by government, which may be up to 25 parliamentary sitting days after completion.

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We like to conduct all the hearings in a reasonably informal manner, but I remind participants that a full transcript is being taken. For this reason, comments from the floor cannot be taken, but at the end of the proceedings - well, in this case, one - other people may make presentations.

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Participants are not required to take an oath, but are required under the act, our Productivity Commission Act, to be truthful in their remarks. They are welcome to comment on the issues raised in submissions. The transcript will be made available on our website following the hearings. Submissions are also available on the website.

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5 I don't think we've got any media representatives here today, so let's skip that part. To comply with the requirements of the Occupational Health and Safety Legislation, you are advised that in the unlikely event of an emergency requiring the evacuation of this building you should follow the exit signs that way, I presume. Lifts are not to be used - well, I don't know that lifts are relevant in this case. Please follow the instructions of the floor warden, which will be Senna, and if you believe you are - that is fine.

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I invite Rachel Kelly now to give us an introduction to her remarks. Thank you.

15 **MS KELLY:** So I'm Rachel Kelly, I'm representing the Ricegrowers' Association of Australia. We represent around 1,500 voluntary rice grower members mainly located in the Murray to Murrumbidgee Valley, so New South Wales.

20 We are also members of the New South Wales Irrigators Council, the National Irrigators Council and the National Farmers Federation, and many of our growers are members of the New South Wales Farmers Association, and we support the submissions of those organisations as well.

25 Today we wish to speak to our draft submission that was previously provided to Senna, and we will provide our final submission in the next few days. We wish to speak to the Commission's recommendation 11.1, which is that the New South Wales government should repeal the Rice Marketing Act 1983.

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We also do have interest in a number of the other submissions, specifically - or in particular the submissions relating to water, but we support the submissions provided by those other organisations that we are members to. With the recommendation - so the - I'll quickly ask, do you want me to sort of - would you like to ask questions in particular?

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40 **MR LINDWALL:** Well, maybe it would be good if you could start by telling everyone about the structure of the industry and how rice marketing works in Australia, which I think is good to get on the record.

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45 **MS KELLY:** Yes. So within New South Wales, the marketing or the export of rice is regulated by the Rice Marketing Act 1983, and what this act provides, or provisions of this act provide that all rice produced in New South Wales is vested in the Rice Marking Board of New South Wales.

5 **MR BAXTER:** Can I just - sorry to interrupt. Could I take you back a step? Before you get to that stage, does the existing legislation prohibit any person anywhere else in New South Wales growing rice without the approval of the Rice Marketing Board or the Ricegrowers?

10 **MS KELLY:** So within New South Wales the sale of rice domestically - so no, all rice produced in New South Wales is vested, so the Rice Marketing Board regulates the production of rice in New South Wales. But all rice produced in New South Wales is vested in the New South Wales Rice Marketing Board.

15 Rice sold domestically within Australia, those people - or the domestic market for the sale of rice is deregulated. However, those people conducting those sales must be licensed by the Rice Marketing Board.

MR BAXTER: Right. So there is a licensing system in existence?

20 **MS KELLY:** There is a licence, yes. And from what I understand, I don't think any application for a licence has been refused.

25 **MR BAXTER:** Can I - you're probably too young, but can I cast your mind back? When the Packer family bought Humpty Doo in the Northern Territory and planted I think close to about 150 hectares of rice, let's assume that one of the new investors in agricultural land in northern Australia went to the same extent and put 150 hectares of land under rice, where does the - well, presumably the Rice Marketing Board has no jurisdiction, but where - what happens if that organisation then decides to export some of that rice?

30 **MS KELLY:** Well, they are not subject obviously to the - if it's outside of New South Wales, they're not subject to the Rice Marketing Act, the New South Wales Rice Marketing Act.

35 **MR BAXTER:** Right.

MS KELLY: And so I think it's - I'm not completely sure, I'll have to come back to you.

40 **MR BAXTER:** So there's no agreement between the other states that in the event of some party deciding to enter rice production that those states have agreed that the Rice Marketing Board or SunRice would act on their behalf?

45 **MS KELLY:** No, there's not, and previously we have had Blue Ribbon

in northern New South Wales - - -

MR BAXTER: Right.

5 **MS KELLY:** - - - who has been producing and processing - or has been purchasing rice off producers and processing rice.

MR BAXTER: And exporting it? Or just selling it domestically?

10 **MS KELLY:** I'm not sure whether they were exporting it. I can come back to you on that one.

MR BAXTER: Well, no, I think it would be helpful if we could just get a clear understanding of where that sits. Because what it effectively would seem to say - and if you started producing rice elsewhere in Australia that you're really in a position where you can go and sell it on the market without having the Rice Marketing Board step in.

15 **MS KELLY:** Yes.

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MR BAXTER: Which differs - or which creates a different situation to some of the traditional statutory marketing boards.

MS KELLY: Yes, yes. Well, definitely there would have been no requirement for the Rice Marketing Board to step in if it's outside New South Wales.

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MR BAXTER: Right.

30 **MR LINDWALL:** The - so you have the Rice Marketing Board, and then of course you have SunRice. Are they the same organisation?

MS KELLY: No, they're not. So the Rice Marketing Board is the statutory organisation set up by the New South Wales government. SunRice is a commercial organisation which was originally a cooperative of New South Wales growers, and has later been commercialised.

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40 However, the Rice Marketing Board, under the Rice Marketing Act, is required to grant a sole and exclusive export licence, or a SEAL, as it's often referred to, and they currently - which they currently grant that to SunRice, and then of course SunRice has the right to export - or has an exclusive licence to export rice from New South Wales.

MR LINDWALL: Yes. So now, but the licensing for rice production is production not export, is it?

45

MS KELLY: The sole and exclusive export licence?

5 **MR LINDWALL:** Yes, but what - what's to stop a person growing rice, sending it to Queensland, and then exporting it from Queensland?

MS KELLY: So because it's produced in New South Wales - so it - - -

10 **MR LINDWALL:** So it is the production that's licensed?

MS KELLY: Yes, it relates to rice produced - the export of rice produced in New South Wales.

15 **MR LINDWALL:** That's very clear. I just wanted to clarify that. Anything else that you'd like to talk about, the structure of the market and how - - -

MS KELLY: Yes, so - - -

20 **MR LINDWALL:** And I say, and how it's been growing over recent years?

25 **MS KELLY:** I was going to speak about some characteristics of the rice industry that set it apart from, say, other grain industries. So I can sort of - I can speak to that at the moment. So the rice industry is quite a unique industry compared to a lot of grain industries, say for example wheat or barley. It is a summer crop, which sets it apart, but it also is an irrigated crop, and it relies on irrigation for production when there isn't water available, which has been happening more and more frequently in recent years. Rice - we generally have a much smaller crop.

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35 So it's directly - or it directly correlates with the water allocations received in the Murray and Murrumbidgee Valleys in New South Wales. It is a very small industry. We did - we had peaked back in the 90s at 1.7 million tonnes. In the early 2000s we reached 1.2 million tonnes, but since then we haven't reached - sorry, in 2010 or 11 they reached 1.2 million tonnes, but it is very rare for production to reach above 1 million tonnes, and the estimate is that production sits somewhere around - on average will sit somewhere around 600,000 tonnes going forward.

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45 But there is high variability in total production, so we had - during the drought we reached 19,000 tonnes for one year, total production. So there is massive fluctuations. The rice industry - so being both a small industry and a highly variable industry, it is very hard to market or set up - establish an effective marketing structure or mechanism.

5 And - because - and that's mainly, like, due to the fact that producing rice is so reliant on irrigation, as opposed to wheat where - or barley, where it's produced across a diverse range of climates in Australia and therefore fluctuations are a lot more stable because of those - that diversity, and the large production volume.

10 Sorry, I'll just read my notes. And because of the small total production, economies of scale in marketing are extremely important to the export of rice, which for obvious reasons, especially when it comes to freight. And one of the resources that we think is extremely reliable is the independent report that is produced by Grant Thornton Australia, which outlines, amongst other things, the freight scale advantage, the ... (indistinct) ... from the vesting arrangement, and this has been estimated to be, for the 2014-15 year, the freight scale advantage was \$14.3 million.

20 **MR BAXTER:** Can I just - does that freight advantage mean a freight advantage from Griffith or Leighton to port of dispatch? Or is that a total CIF advantage, so that it's an advantage to, say, deliver - - -

MS KELLY: To the point of delivery.

MR BAXTER: To the point of delivery?

25 **MS KELLY:** Yes, from what I understand.

MR BAXTER: Okay. So then it's 14.3 million a year?

30 **MS KELLY:** Yes, that was - in 2014-15 it was 14.3 million in that year, and that was based on the total production of 829,000 tonnes. Total - sorry, so there's a bit of a - I'll just explain, when we talk about total for the year, it's the total rice marketed in that year as opposed to the total production. So when we're talking about the freight scale advantage and the price premium, it's related to the amount of rice sold in that year or exported in that year, sorry.

40 In addition, another thing that sets the rice industry apart from other like industries is the amount of innovation happening in the marketing of the rice. So all rice exported from Australia is exported as a value-added product. We don't do - or SunRice does not bulk export and sell product, unlike other grain industries, so - and this is - - -

MR LINDWALL: So it's all packaged? Yes?

45 **MS KELLY:** It's packaged, yes, and sold as - whether it's rice cakes or

5 rice flour or packaged up rice. And that is all through this. And it is all
branded and then they develop specific brands for specific markets.
SunRice has invested much money into developing these brands and these
products, and it sort of sets the Australian rice industry apart from other
like Australian agricultural industries.

10 The - and this is part of the reason we're able to obtain a price
premium, is through that branding and those - that continued investment
in product development and marketing. SunRice also heavily invests in
product or rice breeding and in other rice production research and
development programs. In particular with the breeding, it's very focused
on finding traits in rice varieties that are suitable or that are in demand by
some of our export markets, and so that's something that has really helped
the Australian rice industry develop.

15 **MR LINDWALL:** And at this stage you haven't used GM, though?
Genetic modification?

20 **MS KELLY:** No, yes, no, no GM used in Australia at this stage. And I
don't think - there won't be any GM, from what I understand, in the
future. But it's about finding traits, so for example, tastes and textures
and things that are suitable to our export markets. And those markets,
obviously they have a much - they place a much - many - sort of our main
markets are in the Pacific, Asia and the Middle East, and they - - -

25 **MR LINDWALL:** Pacific, Asia and the Middle East, yes? Anywhere
else that we export to?

30 **MS KELLY:** Yes, we do export to - we export to 60 nations worldwide,
I think, off the top of my head, I can clarify that. So there's a number
of - - -

MR LINDWALL: Including to Italy?

35 **MS KELLY:** Not that I - - -

MR LINDWALL: With the risotto-type rice? Not - - -

40 **MS KELLY:** I can't tell you, I'm not sure about that, yes.

MR LINDWALL: Okay, that's all right.

45 **MS KELLY:** Yes. But this specific focus on - so this model, the
paddock to plate model that vesting has allowed SunRice to maintain, has
really helped to ensure that they can gain those premiums out of those

export markets by being able to control the production of rice from that very starting point, with the rice breeding program and the clean seed program, all the way through the production, the processing, the transport, the marketing and the final sales.

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MR LINDWALL: Okay. And in terms of the price premium, we may as well talk about that now. What type of evidence would you - what type of premium are you being able to find, effectively?

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MS KELLY: So what - so I'll go back a step first and talk about the current - so the New South Wales, through the Rice Marketing Act, there's initially an obligation to review the vesting arrangements frequently, and that's - there's currently a review of rice vesting happening through the Department of Primary Industries in New South Wales.

15

We at the RGA believe that's the appropriate mechanism for reviewing vesting, and it's been - they've - due to a very - their very specific terms of reference, which focus on the net benefits and costs of vesting, not only for growers but for the community and for the New South Wales economy.

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We - and the resourcing of that review, that's specifically focused on rice vesting, we think this is the appropriate mechanism, and because they have - it's the jurisdiction that regulates rice vesting.

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MR BAXTER: How far has that current review progressed? Because it's underway, you say?

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MS KELLY: So yes, it's currently underway. It's receiving submissions at the moment. So all submissions are due by 14 September, and the review - I think they will hand down their findings in November. And the review's - or the current vesting arrangements expires in June next year, June 2017, so it's up to the New South Wales government to make a final decision before then. If they don't, then the vesting does cease.

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With that - or as part of previous - so those - and I think the adequacy of this arrangement is demonstrated by changes that have been made to the vesting arrangement in the past. One of those - or in the recommendations which have been - the New South Wales rice industry is taking very seriously, one of those recommendations was the deregulation of the domestic market, which is one of the most profitable markets, and as a consequence of this Australian consumers have access to a wide range of rice products.

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5 Another recommendation that came down from that review previously was the need for better evidence of the price premium, and the Rice Marketing Board as a consequence of that recommendation have engaged Grant Thornton Australia to conduct independent reviews of the costs and benefits of rice vesting, and they do that on an annual basis now.

10 Those reviews are quite robust reviews. They look at all the export market, the individual export markets, and the premium that's being - or that the rice industry is able to obtain in each of those markets as a consequence of vesting, as well as a number of other factors, including community benefits of vesting, and - sorry.

15 What that review has demonstrated is that - or what that report, independent report, has said to growers is that for - or the more recent one, which analysed the 2014-15 crop year, rice vesting delivered an export price premium of \$82.4 million plus a freight scale advantage of \$14.3 million, based on the total crop size or total export size of 829,000 tonnes. So in total, adding those two together, that equates to an extra \$116.65 per tonne for growers.

20 **MR LINDWALL:** Or \$96.6 million if you - yes? is that right?

MS KELLY: Yes.

25 **MR LINDWALL:** Yes.

MS KELLY: Yes, that is, yes. Point 7, I think.

30 **MR BAXTER:** Can I just clarify that that analysis is being done on the premium on an FOB basis or a CAF basis?

MS KELLY: I'm not quite sure.

35 **MR BAXTER:** Maybe take that on notice.

MR LINDWALL: Yes.

40 **MR BAXTER:** Because it can make quite a difference to the figures, and if you compare the figures that were done off export of Californian rice, I think - I'd have to stand corrected - - -

45 **MS KELLY:** So actually, no, I can - I'll just find my notes. So I'm sure about that, but I can talk about a comparison, doing a comparison with the Californian market spot price.

MR BAXTER: Well, what I suggest might be more useful, if it's acceptable to us and to you in particular, is for one of our people to sit down with you and run through this calculation.

5 **MS KELLY:** Yes.

MR BAXTER: Because it's that freight difference that is in fact the major influence on the premium.

10 **MS KELLY:** Yes. And one of the actual criticisms we do have of the process that has been undertaken by the Commission is that there hasn't been any consultation with the rice industry or the various stakeholders.

MR BAXTER: That's not totally correct.

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MS KELLY: Well, that's - or with some of the major stakeholders in the rice industry, including SunRice, from what we understand.

MR LINDWALL: Well, I can't speak for that except for the fact that, you know, we've always been open to talk to people at all times, so - - -

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MS KELLY: Yes.

MR LINDWALL: - - - it might be a fault of both of our sides.

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MS KELLY: Yes.

MR LINDWALL: Anyway, that's water under the bridge. Please continue, yes.

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MS KELLY: Yes. So sorry, so that's - and that price premium has been replicated in a number of the - or a number of years beforehand where that report has been produced. I will also note in terms of the cost of vesting that the cost has been around 600,000 tonnes for a number of years - \$600,000, sorry, for a number of years now, and this represents about 60 cents in the tonne, around that figure. Less than \$1 a tonne. And this cost is fully paid for by the growers.

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MR LINDWALL: So there is no taxpayer subsidy for this at all

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MS KELLY: Yes, no.

MR LINDWALL: The - all right, so the premium is something we can look at a bit more, but why is the industry convinced that the premium, if it exists, and let's say it does, is not due to the better quality product than

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other countries might export? That in fact you should give yourself credit for the product rather than a marketing organisation?

5 **MS KELLY:** I think we actually do give ourselves credit for the product, but we recognise that the ability to establish so much goodwill in the brand has been a consequence of having that single entity conducting the marketing, and that the SunRice brand in itself has so much recognition overseas and so much goodwill attached to it that it is something that we really want to hold onto in a premium. Part of the premium is sourced
10 from that brand itself.

But also - but that brand hasn't just come about. It's been as a consequence of the investment that SunRice has been able to make and having that full control over the supply chain that it has been able to
15 establish and maintain such a premium for its brand.

MR LINDWALL: So why does it have to be mandatory? If it has all of these benefits, why do you have to force all rice growers to go through that process? If it's intrinsically good, wouldn't they choose to do so
20 voluntarily?

MS KELLY: Not necessarily, and I think there has been some opposition in the previous rice vesting reviews. And through the establishment - through whether or not they do it successfully, by people competing to export rice, there's a large risk that some of that goodwill can be undone if a product that has not been subject to the same rigour is exported into some of those markets where we do have such a good - - -
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MR LINDWALL: You think it would undercut the market? Well, what about exports from rice producers elsewhere in Australia outside of New South Wales? Do they have - do they not get a price premium?
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MR BAXTER: I don't think there are any, are there?

35 **MS KELLY:** Yes, I'm not sure - I'm not - - -

MR BAXTER: Is there any rice being exported from the Ord River these days, or is that all - - -

40 **MS KELLY:** Not that I'm aware of.

MR LINDWALL: Yes, okay, yes.

MS KELLY: They have a lot of - - -
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MR LINDWALL: That would be a counter-example, if you could.

MS KELLY: There is rice produced in the Ord River, but they do have a lot of trouble producing rice.

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MR BAXTER: Well the birds generally get out of it more than the producers get out of it.

MS KELLY: Yes. Yes. And rice blast and other sort of fungi and things.

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MR BAXTER: Can I just go back a step? Who are your major competitors in the marketplace?

MS KELLY: In the export market?

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MR BAXTER: Yes.

MS KELLY: Ah, California is obviously our biggest competitor. And the other one is Egypt has quite a - is quite a big competitor. So that's for the Japonica medium grain, yes.

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MR BAXTER: Yes. Knowing that California has gone through a series of droughts over the last 10 to 12 years, what's the impact of the conditions, growing and exporting conditions, in, say, California and Egypt as against Australia, and how do they impact on our ability to get into these markets and which we're claiming a premium for?

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MS KELLY: So the impact is - it's not like - the international rice market is not such an organised market, I would say, as other grain industries such as wheat. So it is quite - because rice is a staple, probably the world's biggest staple food, and there's so many sensitivities around protecting rice, especially in some of those countries where it is considered a major staple, there is not one sort of systematic market that can measure that.

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Needless to say, with the California market, who is our - California is our biggest competitor, we - generally the - we don't necessarily compete in the same markets with wheat, you trade a product onto the market and then - and the world market sort of sets the price. Australia, it's all sort of locked down through agreements with various countries. There's not necessarily a set price.

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MR BAXTER: So it's more like iron ore exports to Japan or coal or something, where we negotiate a price for the coming year or something

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like that.

MS KELLY: Yes, yes. And I know there was a comparison in a Deloitte report that was prepared by Bell Potter Securities, or commissioned by Bell Potter Securities, sorry, that compared the Californian farm gate price with the Australian export price.

However, we argue that this is not a fair comparison, taking into account the farm - in California there's a large - or up to 50 per cent of the product produced in California is sold on the cash market locally, and generally the product being sold on the cash market is of a lesser quality, so - or not a good merchantable quality. So it's not taking - it's not a fair - and that product sold on the cash market isn't accounted for in farm gate price put out by California.

In addition, that includes the product sold in the domestic market in the US, which is a very high yield market for the US, and so that's including that, which - whereas if we're talking about the Australian export market, we're not accounting for the product sold domestically.

MR BAXTER: Yes. Are we able to export - well, let me rephrase the question. Do we suffer in the rice market the same as we've suffered in other product markets, restraints by the US in exporting rice? So if - let's assume, and this is a hypothetical situation, there is a roaring drought in California, which there has been on several occasions, which has prompted, as an aside, a lot of money being spent ...(indistinct)... on nuts and other things. Are we able to export without restraint into the US?

MS KELLY: I can take that on notice, but from as far as I understand, no. But I'm not - I'll take that on notice. I don't - I'm not sure.

MR BAXTER: I mean, the US is not unknown for using quality controls and disease inspections for creating non-tariff barriers, and I would be interested to know whether there's a theoretical ability for Australia to export rice to the US as against what might be the realities or practical ability.

MS KELLY: Yes. I can find out for you.

MR BAXTER: Because that in some respect helps measure the premium.

MS KELLY: Yes.

MR BAXTER: I mean, if there was a totally open market and we were

able to indicate that we could sell to the US where clearly the prices are higher than they are in Australia, and it may be that the prices are higher in the US because they have effective non-tariff barriers against the importation of rice from countries like Australia.

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MS KELLY: Yes. I'm not clear. I will have to - I'm unclear about that.

MR BAXTER: And in that same vein, I notice from the figures that we dominate the New Zealand market for rice. Are there any competitors in the New Zealand market?

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MS KELLY: I'm not sure.

MR BAXTER: Again, would you - because that would influence the premium assessment. If we've basically got a - - -

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MS KELLY: A lot of this information is held by SunRice, but it is commercial in confidence, so SunRice would be the proper authority to speak to.

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MR BAXTER: Right.

MS KELLY: And with - another benefit of the review undertaken by DPI is that the DPI does have discussions, it does have access to information that is considered commercial in confidence by SunRice, and they can factor that into their review of vesting, which would account for a lot of that difference.

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MR BAXTER: Right.

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MR LINDWALL: Do you know whether rice produced in California is genetically modified?

MS KELLY: No, I don't, yes.

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MR LINDWALL: Could you see if you could find that out? That would be handy.

MS KELLY: Yes.

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MR LINDWALL: Now, I do have an interest in that. I wanted to ask you a bit about water price, and the effect on production.

MS KELLY: Yes.

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MR LINDWALL: What's the maximum price that a producer in New South Wales would have to - would make it unviable to make rice?

5 **MS KELLY:** So it obviously is - and I'll take it a step back first. So one of the - I note that there was sort of two main reasons that the Commission put forward for the removal of vesting, or the repeal of the Rice Marketing Act, and one of the recommendations was that through greater competition you will encourage cost efficiencies and innovation in the domestic rice industry, or the New South Wales rice industry.

10 We argue that while there is no competition for the export of rice, there is extremely high competition for water, and access to - and encouraging growers to use their very precious water resource for the purpose of growing rice as opposed to other industries such as cotton or
15 for their grains, therein selling it on the market to someone else who can potentially produce a product with that, such as nuts - that competition means that SunRice has to provide their growers with the best possible return, and that drives them to be as cost efficient and possible, and so in this way we think that despite the lack of competition for export there is
20 actually a major driver, especially in the sort of past - since ...(indistinct)... for SunRice to ensure it is producing the best return for its growers.

25 So that's for - in terms of growing rice, last year we saw - in the Murray Valley we saw prices reach - water prices reach around \$280 on the temporary market, and this - - -

MR LINDWALL: This is per gigalitre or per - - -

30 **MS KELLY:** Per megalitre, sorry.

MR LINDWALL: Per megalitre?

35 **MS KELLY:** Yes. That's temporary water as opposed to water entitlement. And this was - and as a consequence, we saw rice production in the Murray Valley significantly reduced. There was very, very limited production in the Murray Valley last year. Our total production across the Murray and the Murrumbidgee was around the mid 200,000 tonnes.

40 **MR BAXTER:** Can I just explore that argument a bit, or that situation? Knowing that there's been a very significant investment by people like Webster and others in commercial tree - or tree nuts and other things, noting that there's been a move from southern Queensland and northern New South Wales into buying a lot of the country out towards the high plains for growth of cotton, doesn't water, or competition for water and
45 water pricing, then become a critical element in all this?

And where is the point that if you're talking about \$280 per megalitre that the price per megalitre starts to push the ability of SunRice / the marketing board to deliver a better price to growers?

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MS KELLY: So I think they're currently at that position at the moment, and they have been for a while, and they recognise that this extreme competition has been growing for many, many years now. And they - it not only pushes them to provide the best return for their growers, to ensure - and so SunRice - the more stable their annual production, or the growers' annual production, the better it is for their business and their maintaining their export markets.

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And as a consequence, they have recognised many, many years ago that they obviously need to try and provide growers with the best return they possibly can. But in addition to that, they also recognise that it is critical that they invest in research and development to produce varieties that are able to be produced as efficiently in terms of water as possible, and they're now looking at doing things like aerobic rice, which won't require flood irrigation as well, and things along those lines.

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So that's where they're sort of aiming at the moment in terms of their R&D program, and that's - and if we get to looking at - in addition to increasing yield, reducing water efficiencies in terms - and therefore the major input to your rice production will make that production - - -

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MR BAXTER: Again, just following that on, does the licence that a rice-grower holds carry with it a value which is related to the amount of water that that rice-grower is able to put onto his property?

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MS KELLY: So the - - -

MR BAXTER: And that's the value of the licence. I mean, presumably the licence has got a nominal value.

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MS KELLY: The water licence?

MR BAXTER: Yes. But if I, say, for example - let's say you own a rice farm and I don't and I want to buy a rice farm, does your licence carry a value which reflects the value of your water entitlements?

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MS KELLY: In terms of water, the farmers have a number of products. So they have got their water entitlement, which is their permanent right to access a portion of the airspace, I guess, in the dam, and that has a value, which reflects the reliability of the water, and it's - I think general

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security, which is what most of our irrigators utilise, or our farmers, growers, utilise. General security water is valued in the Murray Valley at about \$1,200 a megalitre at the moment. So that's the entitlement, that's the permanent entitlement.

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And then they get an allocation of water apportioned to that entitlement, and that grows throughout the year, that total allocation. In addition to that, farmers who are located within irrigation companies, which is most of our irrigators, have a delivery entitlement, and that is the right to use the infrastructure within that irrigation system. That has a fee attached to it, which is the cost of delivering the water to their farm gate through that infrastructure, and that fee is paid year on year regardless of whether or not they receive allocation.

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15 **MR BAXTER:** So what's the current value of a licence?

MS KELLY: So it's based on the entitlement, so there's not really a separate licence. If you're a (indistinct) there is a separate water access licence, but it has no value, as the entitlement that's attached to it, that has a value, and that's \$1,2000 a megalitre.

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MR BAXTER: Okay. Right.

MR LINDWALL: And how much planning is there beforehand? So it's a summer crop, as you said before.

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MS KELLY: Yes.

MR LINDWALL: And you're a farmer, and the price you think - well, the temporary price is rising, and you decide, well, I'm not going to produce this year, or I am going to produce, or whatever.

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MS KELLY: Yes.

MR LINDWALL: How much time - when do you plant? How long do you need to water for? And how do you set the price in the end? I mean, because the crop, as you say, is very volatile, and - - -

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MS KELLY: Yes, it is. It is very volatile, and so is the water market, and there is a lack of transparency around water allocation, which makes it very difficult for farmers to plan. Our irrigators, or our rice growers, plant their crop in September/October, each year. They harvest in April/May, around there, and it sort of varies, obviously, depending on the (indistinct) system of the south.

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5 And they generally flood the crop around November/December. So new practices are pushing that date further back. So up to that point they will - the current, or the most utilised practice at the moment, is to flush the crop with water up to that point, which then can be recycled. Most farmers have recycle systems to utilise every drop they put on their farm. And the water will - they'll slowly - once it's gone past the pinnacle initiation stage, which is the most important part of the seed formation in the rice plant, that the water can slowly come off after that, so they'll just let it evaporate. It'll just sort of pond there until it's evaporated.

10 But in terms of planning, obviously the biggest input into their production is water at this stage, so they're reliant upon - to access water, they're reliant upon what allocation they receive against their entitlement, and also whether or not they can access additional water on the market.

15 The market is immature, and it is highly variable, and quite unpredictable, which makes it very hard to plan. In addition, allocations are - while much - while it may be more predictable than the market, they are still, to a degree, unpredictable. It's not an exact science how an allocation is calculated. And those farmers - an allocation determination comes out every two weeks, or on the 1st and the 15th of every month, and they - so generally they'll see where they're sitting when they go to plant rice, and that will determine how much rice they do produce. If they put rice on at all, they may put in a smaller amount than their full rice program. They may choose not to, depending on the availability of water.

20 **MR BAXTER:** Can I just say ...(indistinct)... just to explore this a bit further, and I'll come to a point that was put to us when we met people further down the river along the Victorian side in relation to water, but it seems, as far as a grower's concern, in terms of assessing the ultimate premium that you get out of - and whether it's to do with Woolworths in Australia or to overseas - it actually depends on your ability to improve the margins at each point of where either ownership changes, delivery, or changes its nature, or where it sits in the supply chain.

30 **MS KELLY:** Yes.

35 **MR BAXTER:** It was put to us quite strongly by a number of people ranging from people just west of Albury right down to Mildura that New South Wales was actually a fly in the ointment in terms of - not the rice growers, but New South Wales - in terms of the ability of water users to quickly buy and transfer entitlements to water to use if there was, say, for example, a rice grower wanted to buy some additional megalitres, because it was easier to do a transfer of surplus available water between South Australia and Victoria because it could all be done by computer transfer,

5 but if it was a transfer between either South Australia and/or Victoria and New South Wales, the New South Wales government was still requiring that the transaction be converted into a paper transaction, which would then go to the stamp duty office, have to be stamped that it wasn't dutiable, and then advice handed back to the producer or the grower. So that there was a two to three week delay in him being able to confirm that he would actually buy water that was urgently needed.

10 **MS KELLY:** So it's subject to whether or not it's a permanent transfer or a temporary product that you're transferring. So - and stamp duty, from what I understand, relates to the permanent product.

15 **MR BAXTER:** So short-term water can be easily traded with low transaction costs?

MS KELLY: In terms of across state borders, I'm not - - -

MR BAXTER: But within New South Wales?

20 **MS KELLY:** Within New South Wales, yes.

MR BAXTER: Yes, but it's - - -

25 **MS KELLY:** And there is also actually physical barriers to the trade of water. So at the moment most of our growers in the Murray Valley sit above the (indistinct) and the ability of the river upgrades to put water through the choke at the moment is limited, so there's a lack of ability to trade water downstream from upstream.

30 **MR LINDWALL:** So when you've worked out the final cropping volume for a year, then SunRice goes and negotiates the sale of that, or the marketing of it, and all of it's sold, there's no stockpile kept, I take it.

35 **MS KELLY:** On the farm? No.

MR LINDWALL: No, I wouldn't have thought so.

40 **MS KELLY:** That's partly because another benefit of vesting is that the storage of rice is unlike wheat. It is very difficult to store rice. It needs to be stored at a high moisture level, and there is a lot higher costs associated with the storage of rice and costs of infrastructure as well as the ongoing costs of the storage.

45 Due to the relatively small size of the industry and the large costs of storage, the economies of scale that come from having one organisation

maintaining or handling that storage is quite significant.

MR BAXTER: So they're actually temperature controlled storages, as against the wheat one which is not temperature controlled?

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MS KELLY: Yes, yes.

MR BAXTER: Okay.

10 **MS KELLY:** And controlled - there's fungus and diseases and things that they've got be maintained or aware of.

15 **MR LINDWALL:** And the farmers - so going back to this diversification, because the water price goes up and down and it might be very high in one year, do they then grow something other than rice, if it's - - -

20 **MS KELLY:** It depends on the total water availability. But generally our farmers - our growers are mixed farmers, so they do have the ability to grow some crops or run livestock or do something like that. So it depends on how their individual business is set up, but yes they do, they generally tend to do different - - -

25 **MR LINDWALL:** But they get a pretty good idea early in the season before September/October whether it's likely that you can have good crop in rice or not?

MS KELLY: Yes, yes, yes. And then it - yes, that's true.

30 **MR LINDWALL:** I probably don't have any more questions, do you, Ken?

MR BAXTER: I'm just going through the document from - on your document, item D - - -

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MS KELLY: Yes?

40 **MR BAXTER:** And we're talking about international trading environment in rice, and being a New South Welshman the word "corrupt" has particular connotations in this state, but just briefly describe to me what the differences might be in between, say, trading wheat through somebody like Dreyfus or Cargill or one of those groups and the international trading environment for rice which you describe as "often corrupt"?

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MS KELLY: Yes. So there is no sort of single platform for trading rice internationally, unlike some other industries. As I said before, there is particular sensitivities internationally around the trade of rice, because it is a staple for so many countries.

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While there are tariffs, there are also non-tariff based protections, including biosecurity policies, cultural resistance to the import of rice, and single-desk buyers. These factors all make it very complex to operate in these markets, and especially when you're in a position like SunRice where you don't want to engage in any corrupt activity, so it is a very difficult market to operate in.

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Therefore it is very important that you have particular expertise devoted to understanding and influencing these markets, I guess, and obtaining access and maintaining access to those markets, and this is an advantage that through vesting SunRice is able to obtain and maintain.

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MR BAXTER: Which are the countries that object to us having a single desk?

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MS KELLY: Object to - - -

MR BAXTER: Australia having a single desk for selling of rice. You mentioned that there were some countries that - - -

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MS KELLY: No, single desk purchasers, and I'm not sure which one those are.

MR BAXTER: I mean, again, if I can put a question on notice, it would be helpful to have some knowledge of that.

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MS KELLY: Yes.

MR BAXTER: You have also, in item 3 on your document, said we have failed to distinguish between the market characteristics for medium and long grain rice. What are those characteristics?

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MS KELLY: So - and that relates to the - in particular the international markets that demand those products. So the product of rice and medium grain rice is - there's obviously just completely different markets, so it's comparing apples and pears, essentially, and the medium grain rice market is generally considered to be a premium market compared to the long grain market.

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MR BAXTER: All right. Yes, no, that's all I have.

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MR LINDWALL: Is there anything else you'd like to say, Rachel?

5 **MS KELLY:** I'll just quickly look through my notes. Just one thing that the Commission's report doesn't touch on, and that the New South Wales statutory review sort of does take into account is the local benefits of the vesting arrangement, and the benefits that - the on-flow benefits for local communities, or rice growing communities, of having a price premium attached to the export of Australian rice. So many of these communities are very small, and rely on a critical mass to maintain their services, and so therefore any improvement to the production value of their local product is significant for those communities, and appreciated by those communities.

15 The other thing that the Rice Marketing Act and the sole and exclusive export licence is the buyer of last resort provisions, which requires SunRice as the holder of the sole and exclusive export licence to purchase every last bit of rice produced by growers at the same value, so all rice within the—subject to differences in variety, the - - -

20 **MR LINDWALL:** That brings an interesting question, because then how do you avoid the problem that's affected the dairy industry whereby the Murray Goulburn has overestimated the price for sale and ended effectively buying things at a high price or something like that and then losing out because it becomes bankrupt, almost? That's always a risk if you have that type of arrangement.

MS KELLY: By having too much product?

30 **MR LINDWALL:** Well, effectively the price that's been negotiated or arranged for a particular volume, and they've made a miscalculation, and then through this buyer of last resort they have to buy at the higher price.

MS KELLY: Yes.

35 **MR LINDWALL:** It's the same problem that led to the wheat stock - sorry, wool stockpile many years ago.

40 **MS KELLY:** So the rice industry differs from the dairy industry because we have a full pricing system, which means that the full value of that product is not realised up to 18 months after it is purchased, and it is paid out in four full payments, which would help avoid the situation that's currently being faced by the dairy industry.

45 **MR LINDWALL:** Okay. So you've never had any problems with this

buyer of last resort?

5 **MS KELLY:** No. And we have things like the Clean Seed Program, which ensure - which, as a consequence potentially of that provision, SunRice has invested in things at the start of the chain like the Clean Seed Program which ensure - or which helps to mitigate the risk of poor product at the end.

10 So as well, it also, through their focus on - so SunRice obviously distribute the seed and they set price signals for the different varieties depending on international demand for those different varieties. Obviously we have different varieties that suit different export markets, and through those price signals we can, to a degree, regulate total production of those different varieties to suit the demand for that product within those different export markets.

15 **MR BAXTER:** This may be a commercial in confidence question. In the event that SunRice or the marketing board was put in a position where it had to acquire rice for some - let's say a shipping strike or some reason - does the board have to either go into debt to fund that, or does it get a government guarantee or some other support in order - say, for example, it had, you know, a thousand tonnes of rice sitting in store awaiting shipment, the MUA went on strike and the shipment wasn't able to occur, and SunRice has got the containers sitting here at I believe North Griffith or whatever, who funds that period?

20 **MS KELLY:** I'm not sure.

25 **MR BAXTER:** I mean, look, I think there are probably in this a series of questions which really need us to have a discussion with SunRice, probably on a confidential agreement basis. I can see some considerable differences between some of the traditional marketing boards and certainly between the dairy situation, which is - and why I asked the debt question is, I mean, Murray Goulburn put itself into enormous debt, which was imprudent, and I mean, my own personal view, and I am prepared to go on the record about this, is all the directors should have tendered their resignations and packed up and gone.

30 **MR BAXTER:** I mean, look, I think there are probably in this a series of questions which really need us to have a discussion with SunRice, probably on a confidential agreement basis. I can see some considerable differences between some of the traditional marketing boards and certainly between the dairy situation, which is - and why I asked the debt question is, I mean, Murray Goulburn put itself into enormous debt, which was imprudent, and I mean, my own personal view, and I am prepared to go on the record about this, is all the directors should have tendered their resignations and packed up and gone.

35 But we haven't seen the detailed historical financial records to make an assessment as to whether SunRice has been prudent in its price paid to growers, and whether or not it has reflected market conditions back to the growers so they understand what's happening.

40 **MS KELLY:** No, I can't comment.

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MR BAXTER: No, I understand.

5 **MR LINDWALL:** Well, final question from me is, of your 1,500 members, if I'm not mistaken, they all support the current arrangements with the Rice Marketing - - -

10 **MS KELLY:** Yes. So how the Ricegrowers work is we have seven branches, each represented by its own branch organisation. We have - the branch AGMs were held in June this year, and we received submissions from all of those branches supporting the continuation of vesting in light of the upcoming DPI review that also applies to this.

15 **MR LINDWALL:** So there are any growers who are not members of your association?

MS KELLY: There are growers that aren't - so we're a voluntary-based membership.

20 **MR LINDWALL:** Yes.

MS KELLY: So there are rice growers that aren't members of the RGA. But I haven't heard personally from anyone who has - - -

25 **MR LINDWALL:** That's all right. All right.

30 **MR BAXTER:** Yes, just one further one comes to my mind, and it may be a sensitive one. In light of the reasonably rapid expansion of cotton growing and the nuts in the west of this area, what's the implication for the prices of rice growing land? That is, if this trend continues. I mean, there's been an extraordinary growth.

35 **MS KELLY:** Well, I guess - I don't know. I don't think I'm in a position to comment on that. I'll say that for our current growers, that any increase in value would be beneficial to their businesses. There's obviously - yes, like there's increasing competition for water, there'll be increasing competition for land. Our growers - the types of land they're situated on is really - even across the small Murray-Murrumbidgee valleys, it's quite diverse.

40 Some of the land that isn't suitable for rice is suitable for cotton, and vice versa. Yes. But otherwise - - -

MR BAXTER: Has there been much foreign investment in the industry?

45 **MS KELLY:** Not that I'm personally aware of.

MR BAXTER: Okay.

5 **MS KELLY:** Not compared to - not to the same level as some other industries.

MR BAXTER: But the RGA wouldn't have a position on foreign investment policy, I guess?

10 **MS KELLY:** No, we don't. We have discussed it with our social executive, and we don't have a position, I understand.

MR BAXTER: Okay.

15 **MR LINDWALL:** Well, Rachel, thank you very much for your patience, and we appreciate your testimony here today.

MS KELLY: Thank you for having me.

20 **MR LINDWALL:** We'd like to follow it up, and what I might do is speak to Rohan Nelson or through Rosalie to see if we can then get some connection with SunRice and perhaps get some access to some of that data.

25 **MS KELLY:** Yes. Yes, we appreciate that.

MR LINDWALL: Now, would anyone else like to appear and testify about anything? No? I'm very disappointed. Well, I think then that we'll have to adjourn our proceedings. That concludes today's scheduled
30 proceedings. I adjourn the proceedings, and we'll resume tomorrow with hearings in Sydney. Thank you all for coming, and if anyone wants to have a chat about it privately after this, that's fine too.

35 **MATTER ADJOURNED AT 10.02 AM UNTIL
FRIDAY, 19 AUGUST 2016 AT 9.00 AM**