

Marketing of Primary Products Act 1983

NSW Rice Marketing Board

Review Report

NSW Department of Primary Industries

April 2005

Prepared by IMC – Integrated Marketing Communications Pty Limited

Thanks

The Review of the Marketing of Primary Products Act 1983 (Rice Marketing Board) Consulting Team would like to thank all stakeholders who have contributed time and knowledge to this study.

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- Office of the NSW Minister for Primary Industries
- The NSW Department of Primary Industries
- National Competition Council
- Rice Marketing Board for the State of NSW
- Ricegrowers' Co-operative Limited trading as SunRice
- RiceGrowers' Association of Australia Inc
- Murray Regional Organisation of Councils
- Rice producers of NSW

Directory

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Abbreviations

ACCC	Australian Competition and Consumer Commission
The Association	Ricegrowers' Association of Australia Inc.
Co-Op	Ricegrowers' Cooperative Limited (trading as SunRice)
DPI	NSW Department of Primary Industries
GLA	Grain Licensing Authority
IMC	Integrated Marketing Communications
JIS	Joint Industry Submission prepared by the Rice Marketing Board, the Rice Growers' Cooperative Limited (SunRice) and the Ricegrowers' Association of Australia Inc
NCP	National Competition Policy
NCPA	National Competition Policy Agreements - Compendium of National Competition Policy Agreements (Second Edition 1998)
RMB	Rice Marketing Board of New South Wales
RCM	Ricegrowers' Cooperative Mills
SunRice	Ricegrowers' Cooperative Limited trading as SunRice
The Act	Marketing of Primary Products Act 1983
The Board	NSW Rice Marketing Board
The MPP Act 1927	Marketing of Primary Products Act 1927
The Scheme	The Growers' Equity Rollover Scheme
The Review Team / the team	IMC – Integrated marketing Communications Pty Ltd (see Attachment B)
USDA	United States Department of Agriculture

Executive Summary

The Rice Marketing Board (RMB) for the State of New South Wales controls the State's annual rice crop. NSW produces the vast majority of rice grown in Australia.

Under the Marketing of Primary Products Act 1983, the NSW crop is vested in the Rice Marketing Board. This means that, regardless of who grew it, at law, the crop must be delivered to the RMB which is responsible for selling it on behalf of growers.

The RMB has the discretion to use agents to assist it in receiving, processing, packaging, marketing and distributing NSW rice.

Under an exclusive Agency Agreement that dates back, in various forms, to 1955, the RMB uses the NSW Ricegrowers' Cooperative Limited - trading as SunRice - to process, package, market and distribute the State's rice.

SunRice is an independent commercial organisation answerable primarily to shareholders who are, by and large, ricegrowers.

SunRice is accountable to the RMB for the performance of its contractual commitments under the Agency Agreement.

The NSW Minister for Primary Industries in late 2004 commissioned a Marketing of Primary Products Act 1983 review to be conducted in accordance with the principles of National Competition Policy (NCP) legislative reviews.

Sydney based consultancy IMC – Integrated Marketing Communications Pty Limited was selected by competitive tender to conduct the RMB review in the period October 2004 to January 2005.

As a part of the review, submissions were called from the general public, including rice industry stakeholders and business and government organisations.

The Review received 639 submissions. Five of these called for change to the existing marketing arrangements. Only one submission was received from a person outside the rice industry.

Significantly, no submissions were received from organisations or people involved in handling or marketing other grains or cereals nor were there any submissions from SunRice customers – specifically those major retailers.

SunRice in February announced, following three years of drought, that it was to cut 75 jobs from its workforce. The announcement came two years after 200 jobs had been shed and two rice mills closed in the Riverina.

Review Findings

The NSW rice industry has built a unique, world-class, vertically integrated business with a range of powerful consumer brands which make a significant contribution to the Australian economy.

The NSW Rice Industry does not fully bear economic comparison with other Australian grain and cereal industries because these are essentially bulk commodity industries.

At the heart of the rice industry are around 2000 primary production small businesses that generate direct employment of an industry-estimated 8000 people.

'Market failure' arising from a range of protectionist and producer assistance policies in offshore rice markets and rice producing countries exists as a significant continuing market distortion and a barrier to entry for NSW rice.

On a combined economic and qualitative basis, current single desk export marketing arrangements in the NSW rice industry deliver a net public benefit in the order of \$45 million per annum to the broad economy.

These significant benefits would be lost in the event of deregulation of the export market.

The Review Team believes that economic benefits totalling \$48 million accrue largely from calculated market premiums, sea freight advantage and conversion scale benefit that are attributable to the single desk.

In the national domestic market, NSW vesting arrangements generate a small, but demonstrably declining, cost to consumers estimated at about \$3 million per annum.

This cost is being rapidly eroded by competition from the increasing volume of foreign rice imports from producers whose industries are, in one way or another, protected and/or subsidised.

The Review Team believes that in the interest of transparent reporting and optimising resource allocation, actual costs should be itemised and charged in individual grower return statements.

The Review Team notes that the RMB has a very close relationship with NSW Ricegrowers' Cooperative Ltd that it uses as a means of monitoring the performance of SunRice in meeting various obligations under the Act.

While this relationship has obvious benefits, it also gives rise to concerns about cross directorships between the two Boards and the remote possibility of conflicts of interest.

In the pervading commercial and political environment, the Review Team believes a more rigorous and critical protocol for independent monitoring of SunRice performance by the RMB would assist in meeting current best practice standards.

While it is not possible to causally link advances in environmental management and research and development to present arrangements, it is highly likely that the integrated industry culture and awareness continue to contribute to these advances.

Recommendations

The Review Team makes the following recommendations.

Recommendation 1

- retain single desk export marketing arrangements for the NSW rice industry

Recommendation 2

- retain domestic market vesting powers

Recommendation 3

- make the NSW Rice Marketing Board and the Ricegrowers' Cooperative Ltd Board more transparently independent of each other

Recommendation 4

- establish more rigorous protocols for RMB accountability to Government in assessing and communicating SunRice's performance in delivering grower and community benefits

Recommendation 5

- account separately for SunRice grower payments for rice varieties and grades and Cooperative member bonuses to communicate more accurate market price signals to growers

Recommendation 6

- disaggregate and report to individual growers the costs for the delivery of their rice to receival depots and/or mills

1. Introduction

1.1 Review Background

This Review of the NSW Marketing of Primary Products Act 1983 relates to rice marketing arrangements including the constitution, operation and functions of the Rice Marketing Board (RMB) in the State of New South Wales.

It has been conducted in accordance with the requirements for legislation reviews set out in the National Competition Principles Agreement between the State and Australian Governments.

The fundamental purpose of National Competition Policy is to introduce competition reform where it is deemed to be in the overall interest of the Australian community.

The Rice Marketing Board (RMB) for the State of New South Wales by law controls the State's rice crop.

A sole Agency Agreement exists between the RMB and the NSW Ricegrowers' Co-operative Limited, trading as SunRice.

This agreement confers on SunRice sole authority to manage production, processing and marketing of the annual NSW rice crop both domestically and internationally for the end benefit of the company's shareholders who are mostly ricegrowers.

The agreement bestows on SunRice the right to operate as a monopoly 'single desk' exporter of all rice grown in NSW, which is almost all of the rice grown in Australia.

In 1995, a Review Group consisting of representatives of the then NSW Department of Agriculture, the RMB, the NSW Cabinet Office and Treasury reviewed statutory arrangements for the marketing of rice produced in NSW.

In broad terms, the 1995 review concluded:

- the arrangements as they stood delivered economic benefits for growers and for Australia as a whole
- through the Agency Agreement, SunRice was able to exercise market power to deliver significant additional returns for NSW ricegrowers
- the annual benefit was most likely to be in the range of \$26-\$35 million in 1996-97 rising to \$36-\$45 million in 2000-01. This was qualified with the statement that: "*The Review Group acknowledges that, while it is not in a position to confirm the actual figures, it is probable that premiums up to the size estimated by the Board are achievable over the next five years*"
- the cost to the Australian economy was estimated to be in the range of \$2 million - \$12 million per annum

- vesting should be abolished to facilitate domestic deregulation thereby eliminating a cost to the Australian community
- the single desk for rice exports should be maintained, by establishing the export monopoly under Australian Government jurisdiction.

The 1995 Review Group, in addition to the above conclusions, raised concerns about the possibility of conflicts of interest arising from cross directorships of the RMB and SunRice.

In a Section 9 Public Accountability assessment, the 1995 Review Group noted *“there should be no cross membership of the Board (RMB) and the Cooperative’s (SunRice’s) Board of Directors”*.

As there has been no major change to the relationship structure between the RMB and SunRice, the potential for conflicts of interest identified by the 1995 Review Group continues.

Pending negotiation over the establishment of an export single desk under Federal Government jurisdiction, the NSW Government at the time extended the authority of the RMB to 30 January 2004.

The Federal Government did not proceed with the proposed establishment of a planned export single desk under its jurisdiction.

The NSW Government has extended the RMB's powers to January 2009 to enable the conduct of a public review to determine what statutory arrangements should apply in the longer-term.

Under the terms of its NCPA obligations, the NSW Government in late 2004 commissioned this independent review, taking into account market changes that have occurred since the 1995 review.

In its 2003 NCP assessment, the National Competition Council found that NSW had not met its competition policy agreement (CPA) Clause 5 obligations, as it had not removed the domestic rice marketing monopoly as recommended by the 1995 NCP Review.

The NCC endorsed the NSW Government’s decision to commission a new independent NCP review of the Act.

1.2 Review Requirements

The key objective of National Competition Policy is not to pursue competition for competition's sake, but to foster competition to boost economic performance and benefits to the Australian community as a whole.

Recognising that NCP can cover complex areas of social and economic regulation, an assessment is required of whether or not reform is in the interests of the community as a whole.

It is not sufficient for a review to examine only narrow economic issues, but rather to also take account of broader benefits and costs and overall impacts on the community.

For nearly all aspects of NCP, including legislation review, public interest is the key basis for considering whether reform should be pursued. To this end, it is vital that the public interest test be properly conducted.

Public interest is a broad concept, which requires full account to be taken of social, environmental - including sustainable development - and regional impacts, as well as economic impacts.

The NCPA specifies that the following areas are to be considered as a minimum for such reviews:

- economic efficiency
- business competitiveness
- consumer interest
- regional development
- employment
- environment
- social equity and welfare

In addition to these, it is incumbent on this review to consider:

- occupational health and safety issues
- uncertainty and risk
- other aspects raised in the Rice Marketing Review Terms of Reference

NCP guidelines make it mandatory for the public interest test to be addressed in a comprehensive and clear manner.

The guidelines also state: *“If legislative restrictions on competition are to remain, it must be demonstrated that there are benefits to the Australian ‘community as a whole’ from keeping the restrictions — not just benefits to vested interests or regional interests.”*

This framework necessitates clear recognition of the wide range of consequences impacting on the public from change and the potential need for transitional arrangements.

In order to assess this, the NCP guidelines offer a seven-step process under which such reviews are to be conducted.

These are:

- clarify the objectives of the legislation
- identify the nature of the restriction on competition
- analyse the likely effect of the restriction on competition and on the economy generally
- assess and balance the costs and benefits of the restriction
- consider alternative means for achieving the same result including non-legislative approaches
- develop conclusions
- make recommendations

1.3 Review Process

The NSW Department of Primary Industries engaged independent consultants IMC - Integrated Marketing Communications Pty Limited to:

- undertake the review of the Marketing of Primary Products Act 1983 as it relates to rice marketing arrangements in New South Wales
- prepare this report for the NSW Minister for Primary Industries.

The review has been conducted in accordance with the Terms of Reference (attached) and National Competition Policy principles.

In conducting the review, the Review Team has:

- prepared a wide-ranging rice industry Issues Paper inviting submissions from interested parties, including rice industry stakeholders, communities with an interest in rice, members of the Australian public and organisations and government and international agencies
- toured NSW rice regions, including visits to a successful rice growing property and to bulk handling and storage facilities and to a milling, processing, packaging and dispatch facility operated by SunRice
- held a series of meetings with representatives from the Rice Marketing Board, the Ricegrowers' Association Inc and SunRice
- held a public forum in Jerilderie, NSW, to present the review Issues Paper and to respond to questions on the Issues Paper and methodology
- obtained additional information from specific parties for the purpose of clarifying issues and points raised in specific submissions following the submissions deadline
- conducted its own extensive independent desk research

The review Issues Paper was designed to promote debate on the key areas requiring review scrutiny.

The Issues Paper contained a range of topics for consideration and posed 45 specific questions related to these areas.

The Review Team has reflected on the comments, assertions and conclusions made in all submissions. The team has analysed and assessed information and assertions put forward and, where it was deemed to be appropriate, team members have responded to these.

The Review Team received 639 submissions. The Joint Industry Submission (JIS) was by far the most comprehensive document submitted, but a number of other submissions addressed specific points contained in the Issues Paper and these are also reflected in this report.

The vast majority of these were in pro forma letter format from ricegrowers supporting industry status quo.

A summary of submissions received follows:

Organisation/ group/ individual	Submission number	Type/nature of submission	Addressed points in Issues Paper	For/ Against Change	Comment
Rice Industry - RMB, SunRice & Association	1	Detailed	Yes	Against	Referred to herein as the Joint Industry Submission (JIS)
Ricegrowers: - general - general - general - organic	441 1 191 1	"Form" letters Summary Summary Summary	No Specific points No Specific points	Against Against Against For	
Government organisations	4	Summary	Some specific points	Against	
Individual (not involved in the rice industry)	1	Copy of previous concerns / complaints	No	For	Former rice-grower expressing concerns with RMB / SunRice

Only one submission was received with the requirement that information contained within be treated as Commercial In Confidence. This submission was the JIS and the Review Team agreed to respect this confidentiality in so far as it was possible within a Government review framework.

While a large number of pro forma letter submissions were received from ricegrowers, these did not address specific issues in any relevant detail but the significant emotional and cultural support for the existing arrangements by stakeholders was noted.

Only five submissions called for change to the present industry structure and only one submission was received from an individual 'outside' the rice industry.

No submissions were received from organisations involved in grain handling or marketing, no submissions were received from SunRice customers - including retailers - and no submissions were received from other organisations with an interest in the Australian grains or food industry.

Since the 1995 review, the following changes have occurred in the domestic market:

- Imports of rice have nearly trebled, from less than 30,000 tonnes in 1993 to more than 80,000 tonnes in 2003. Imports now account for a third of domestic consumption.
- Consumers are benefiting with greater choice on the supermarket shelf and the retail price of rice has appreciated at a rate in pace with other key staples.
- Australian wholesalers and retailers are utilising imports to displace Australian-produced rice on supermarket shelves and in the food services sector.
- A greater concentration in the Australian retail grocery industry has resulted in an increase in the retailers' margins for rice.

The international market is considered by the industry to be more competitive since the 1995 Review with the following changes occurring:

- Japan has increased its importance as an export market
- The emergence of South Korea and Taiwan as export markets
- The entry of Egypt and Vietnam as competitors in a number of Asian markets.

The 1995 report was supported by extensive analysis of data and information used to assess the existence and levels of benefits and costs to the community.

The 2005 review has built on the findings of the 1995 review using contemporary information provided by the industry and from the Review Team's independent research.

1.4 Structure of the Report

Section 2 of the report provides an overview of the key features of the rice industry in NSW, including its location, production, markets and institutional arrangements.

In Section 3, the objectives of the legislation as they relate to the rice industry are reviewed.

Sections 4 to 8 contain a discussion and assessment of the benefits and costs of the current marketing arrangements – export premiums, consumer costs and regional, environmental and research and development issues.

Section 9 reviews issues associated with the public accountability of the Rice Marketing Board.

Section 10 contains discussion of the conclusions, options and recommendations of the Review Team.

2. The NSW Rice Industry

2.1 Legislative and Institutional Structure

The Rice Marketing Board was originally established in 1928 under the Marketing of Primary Products Act 1927, which preceded the current Act, the Marketing of Primary Products Act 1983.

The then Rice Growers Cooperative Mills, a grower owned marketing and milling Cooperative, was established in 1950. In 1959, following the purchase of privately owned mills, the Cooperative became the sole processor and marketer of rice in NSW.

From 1985, with Ministerial approval, the Cooperative, renamed the Rice Growers Cooperative Limited took over the responsibility for all the operational functions of the Board, principally storage, and the Cooperative's mills.

The ownership of the storage, which was funded entirely by growers, remained with the NSW Rice Marketing Board.

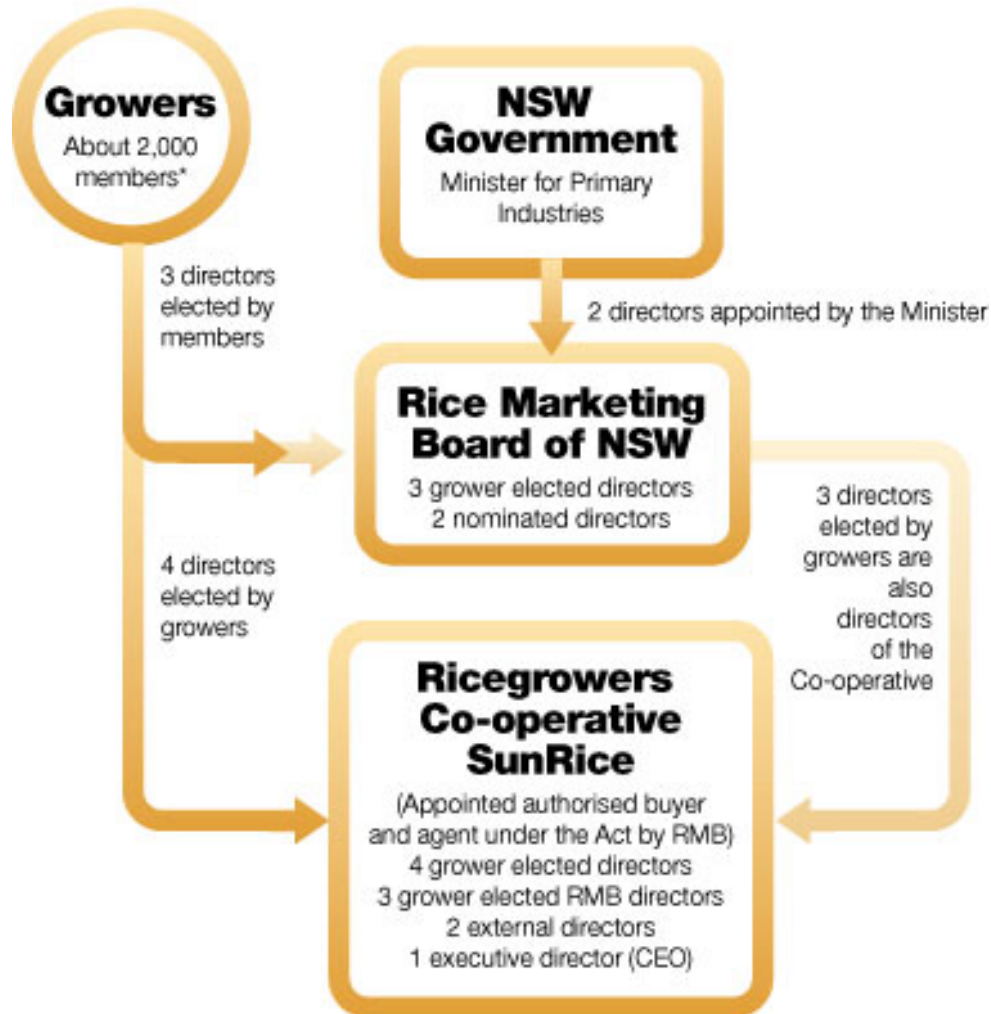
The Board appointed the Cooperative as its agent, allowing the Cooperative to purchase the rice produced by its shareholders, the growers.

Under this on-going arrangement, the following occurs:

- the Act confers on the Board total ownership of the NSW rice crop. This is referred to as 'vesting', and requires that all rice grown in NSW must be delivered to the Board or its sole authorised agent, SunRice, within seven days of the completion of the harvest. SunRice has the sole right to receive, process and market NSW rice on the international and domestic markets
- the Board operates pools that average payments to growers. Costs are similarly averaged
- the sole providers of these services are the RMB and the Cooperative, other providers not being permitted to operate
- there are cross memberships of the Boards of SunRice and the Rice Marketing Board, as shown in the following diagram

NSW Rice Industry

Structure overview



*Members of the NSW Ricegrowers' Co-operative Limited

RMB retains control of ricegrower funded storage assets which are managed and operated by SunRice under the Agency Agreement.

RMB works with SunRice's Grower Services Committee to determine the optimum storage strategy on a 10 year rolling basis.

RMB funding requirements are determined by the RMB's Capital Plan and contributions from growers are determined with reference to funding requirements.

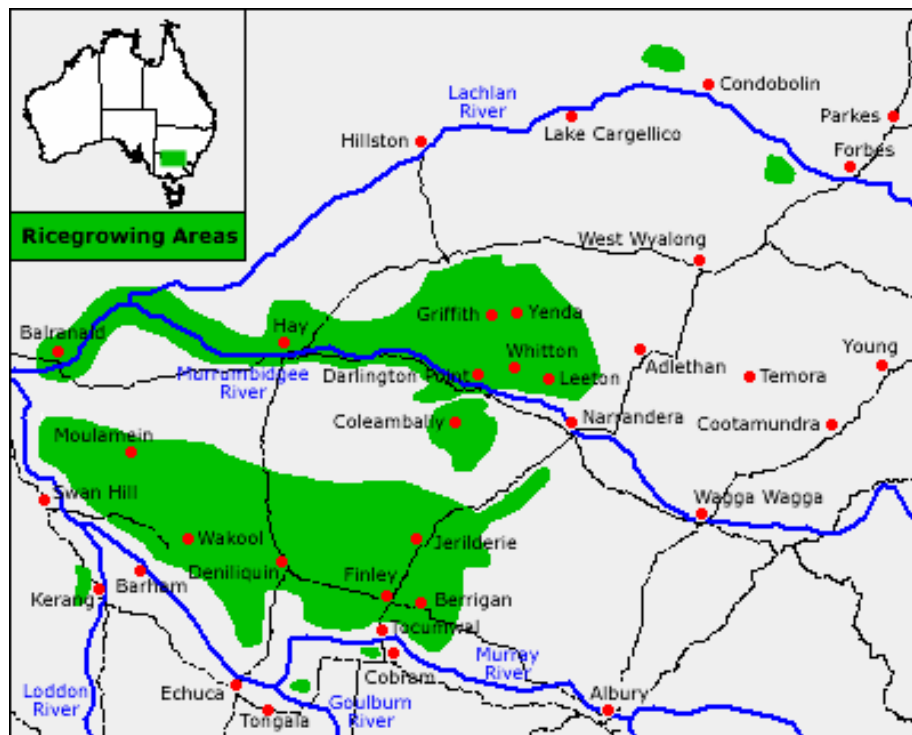
Contributions from ricegrowers consist of two components. These are:

- a non-refundable contribution to pay interest on the RMB's bank facilities
- an amount to repay grower loans

2.2 Industry Overview

There are approximately 2000 rice growing businesses in the Murray and Murrumbidgee Valleys of south west NSW and northern Victoria.

All but about 20 of these businesses are located in NSW and all NSW growers are members/shareholders of the Cooperative (SunRice) which is responsible for processing and marketing NSW rice and rice products.



Source: Map © Australian Surveying and Land Information Group (AUSLIG)
c/o SunRice website – www.sunrice.com.au/rice/industry-grown.asp

The rice industry indirectly employs around 8000 people, the majority in regional areas, with about 1400 employed directly by SunRice.

The industry is a major driver of the regional economy in southern NSW contributing to more than 63 regional towns.

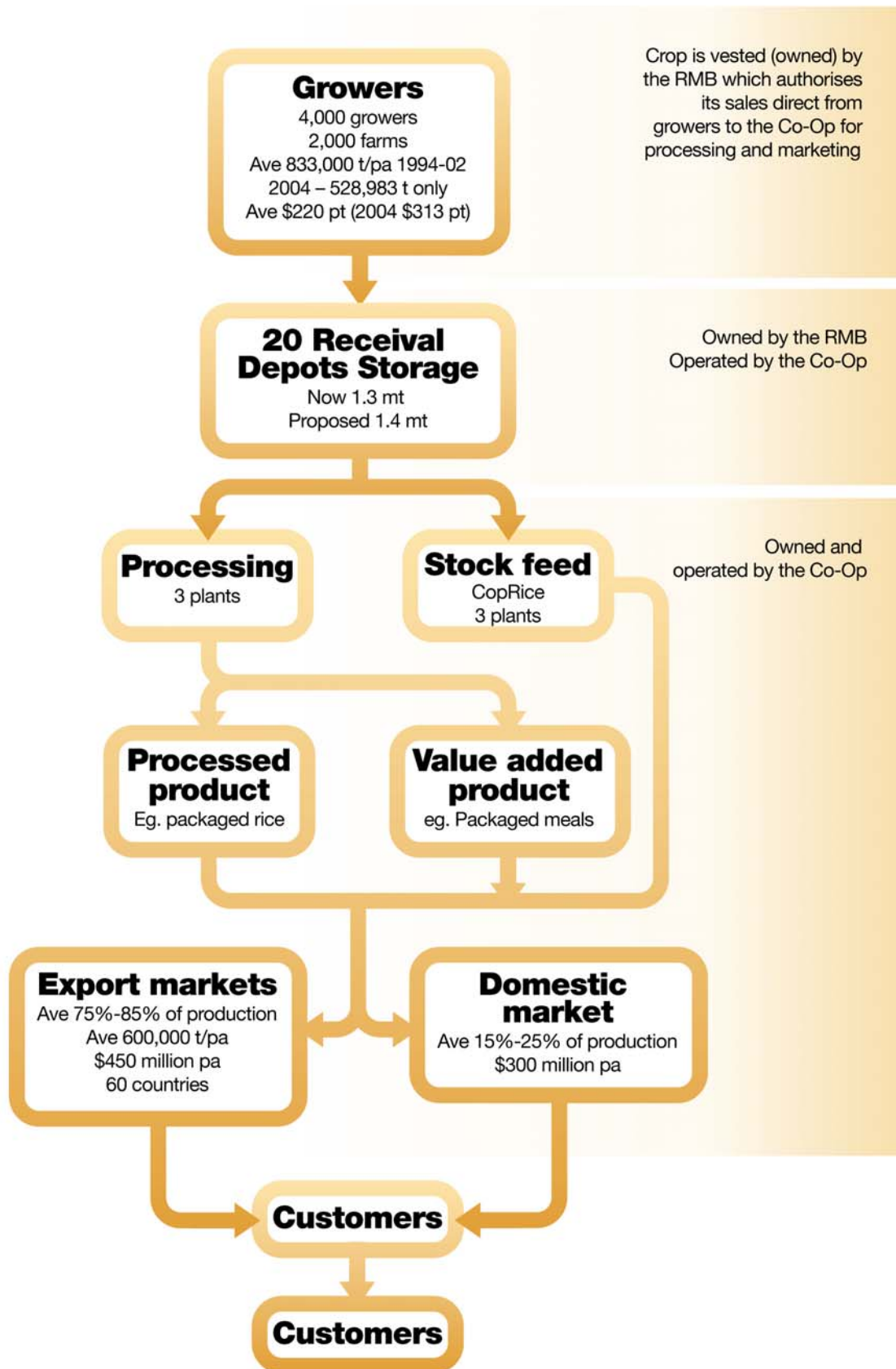
Through SunRice, the industry operates three rice mills, three stockfeed plants and 20 rice receival depots.

There is \$2.5 billion invested in land, water and equipment assets and more than \$700 million invested in mills and storage infrastructure.

Australian rice is an \$800 million a year international business which on average exports 85 per cent of total production to about 60 countries. Of this \$800 million, around \$450 million is derived from value-added exports.

NSW Rice Industry

\$4.3 billion pa (inc. flow-ons)



1. Percentages = Production totals
2. Dollars = Product Sales

Recent Australian Crops

Since 2003, drought has caused severe shortages of irrigation water resulting in significantly lower levels of planting and substantially reduced production of paddy rice.

Rice production for NSW - year ended 30 June

Crop Year	Production tonnes	Milled tonnes	Area hectares	Yield t/ha	No. of Farms	Pool price/t
2001	1,744,000	1,258,000	184,000	9.47	2,499	\$193
2002	1,242,000	888,000	147,000	8.43	2,261	\$244
2003	390,000	280,000	38,000	10.17	817	\$313
2004	529,000	383,000	64,735	8.17	1,564	\$255
2005 (est.)	370,000	265,500	40,000	na	na	na

Source: 2001 – 2004, RMB website – Statistical Summary.2005 (est)
NSW Department of Primary Industries website – NSW Grains Report December 2004

This lower production has significantly impacted on SunRice's operations.

Storage

The RMB works with SunRice – through its Grower Services Committee – on an on-going basis to determine the optimal rice storage strategy.

This is based on a rolling 10-year management plan, which takes into consideration the market outlook, anticipated crop size by region, and the condition of current facilities.

The RMB's present storage capacity is about 1.3 million tonnes and it had been proposed to increase this capacity to 1.4 million tonnes, however lower planting levels in recent years because of the drought and water supply restrictions have resulted in this proposed expansion being put on hold.

Rice Varieties Grown in Australia

About 80-85 per cent of rice produced in Australia is from medium grain Japonica varieties.

These are commonly known as temperate varieties and are grown throughout the world in climates similar to Australia, such as in California, various regions in China, in Egypt and in Italy.

These climates generally feature higher summer temperatures and lower humidity than tropical regions. The balance of other rice grown in Australia is from long grain Indica varieties, including fragrant rice.

Amaroo and Millin are the most popular medium grain varieties and Langi is the largest selling long grain. Australia also produces small quantities of short grain varieties, such as Koshihikari specifically for the Japanese market.

Australian and World Rice Production and Trade

The Australian rice industry in terms of production and processing is said to be the most efficient of its type in the world. The industry operates profitably without production or export subsidies.

Unlike most of its competitors and unlike most rice importing countries, there are no restrictions on imports into Australia of rice produced offshore. Only about 25 million tonnes or about 6.25 per cent of the 400 million milled tonnes of world annual rice production is traded internationally.

Australian rice represents only 0.2 per cent of world rice production with exports representing around 4 per cent of world trade.

Medium and short grain rice account for only about 12 per cent of the world trade, with long grain accounting for more than 75 per cent and fragrant rice accounting for around 10 per cent.

While in a 'normal' non-drought year Australia accounts for only around 2 per cent of total world trade, it plays a substantial role in the trade of medium grain rice.

Long-grain rice is imported by a broad range of countries in south and south east Asia, much of the middle East, sub-Saharan Africa and Latin America.

Medium and short grain rice is primarily imported by north east Asian countries, including Japan, South Korea, and Taiwan, and by eastern Mediterranean countries.

Australia, along with the United States and China, traditionally accounts for about 65 per cent of world trade of medium grain rice and competes for similar markets.

Italy and Egypt account for the bulk of the remainder of world trade in medium grain rice, however their markets are more concentrated.

World exports of medium grain rice are:

Major Exporting Countries	Market Share %¹	Major Export Markets
China	25	Asia, Pacific Nations and some South American countries
Australia	20	Pacific Nations, Japan, North West Asia, Middle East, Europe
United States	19	Japan, South Korea, Taiwan, South America, Jordan, Turkey
Italy	16	Europe
Egypt	13	Middle East, Asia

Source: USDA various reports. 1. Market Shares are approximates

The Economic Research Service of the United States Department of Agriculture (USDA) in its 2004 Rice Outlook for world trade projects annual growth in global rice trade of 2.4 per cent per annum through to 2013.

This increase is expected to be driven by rising import demand caused by larger populations and in some importing countries, limited ability to expand rice growing areas and competition for arable land from other crops.

Global rice consumption is projected to increase primarily as a result of increasing populations in Asia, particularly Indonesia, and to a lesser degree, modest increases in per capita rice consumption in non-Asian rice-consuming countries.

Most Asian countries are experiencing declining per capita rice consumption as a result of diet diversification stemming from higher per capita incomes and a trend to protein based diets.

Global rice production is also expected to increase each year, primarily due to higher yields, while rice-growing area is projected to increase only slightly.

Long grain rice is expected to account for the bulk of rice trade growth, while growth in medium and short grain trade is expected to be much slower.

Domestic and Export Markets

Australian rice competes strongly in international markets, often against subsidised product, and is prohibited from free entry into many countries because of trade barriers.

Rice is Australia's third largest cereal grain export, and the ninth largest agricultural export.

SunRice exports rice primarily as a value added, branded product to more than 70 major destinations in 60 countries including the Pacific Rim nations, the Middle East, Asia - including Japan, Korea and Hong Kong - North America and Europe.

Australian rice consumption increased approximately 44 per cent, or about 63,000 tonnes, from 143,500 tonnes in 1995-96 to 206,400 tonnes in 1999-2000 and has been relatively steady since at about 200,000 tonnes annually.

The growth trend for imported rice has virtually the opposite characteristics to that of Australian consumption and domestic supply with a small increase from 31,600 tonnes to about 40,000 tonnes in the 1995-96 to 1996-97 trading years.

The growth trend then remained relatively flat through to 1998-99, before accelerating strongly from about 43,000 tonnes in 1998-99 to 82,000 tonnes in 2003-04.

Overall rice imports - which are allowed into Australia without restriction - as a proportion of Australian consumption have nearly doubled during this period, representing growth from about 21 per cent of Australian consumption in 1995-96 to about 40 per cent in 2003-04.

Details of the varietal breakdown are not published here because the information was provided on a Commercial in Confidence basis, however the following observations, based on information provided, are made:

- growth in total rice consumption has 'plateaued' during the past five years but rice imports have risen sharply, particularly in the long grain and fragrant segments, during the past two years.
- this, combined with the Review Team's analysis of varietal breakdown, is evidence that there is accelerating competition in the Australian market.
- any market premiums extracted by SunRice from Australian consumers in the past will continue to be eroded by increasing competition from imports and the dominance of major players in the retail sector, who have a history of promoting strong competition for consumer staples such as rice.

3. Objectives of the Legislation

3.1 Background

The Competition Principles Agreement requires that this review identify the objectives of the legislation as they relate to the NSW Rice Industry and whether these objectives can only be achieved by restricting competition.

The NSW Marketing of Primary Products Act is the enabling legislation under which the Rice Marketing Board was established.

This legislation was initially introduced in 1927 and then rewritten in 1983. In the second reading speech in 1983, the objective of the Act was described as being to:

“...facilitate the commercial and efficient marketing of agricultural commodities in the best long term interests of producers”.

3.2 Discussion

The JIS points out that the legislation’s objective is mirrored in the objectives of the RMB:

“...to arrange for the efficient marketing of paddy grown rice in the State, to the best advantage of all producers”.

The joint industry submission states:

“Under the Act, the RMB has put in place arrangements for the efficient marketing of rice which has enabled the development and sustainability of a regionally based and efficient industry that competes in a highly subsidised and distorted global trading environment and delivers a net public benefit to the Australian community.”

The JIS argues that the benefits of the legislation are not confined to growers and to the industry.

Through the higher returns that are achieved, the beneficiaries of the legislation include the Australian economy through regional and environmental benefits, as well as benefits from increased funding of research and development.

The Review Team notes the conclusions of the 1995 Review that:

- The objectives of the Act focus on the interests of producers without specifying the context in which this is to be achieved.
- That any future regulatory regime should be required to generate public rather than industry benefits to be consistent with National Competition Policy and State Government regulatory policy
- The application of a net public benefit test has not been well defined for circumstances involving export markets, particularly distorted export markets.

3.3 Assessment

There has been no change to the objectives of the legislation pertaining to the Rice Marketing Board nor to the objectives of the RMB since the 1995 Review.

In the view of the Review Team, since 1995, there has been little change to the nature of the benefits and the beneficiaries, with the greatest benefit arising from export markets.

Beneficiaries are not confined to the growers and industry.

The Review Team concludes that the NSW Marketing of Primary Products Act 1983 enables the delivery of a range of socio-economic benefits primarily to ricegrowers and their communities leveraged primarily by the industry's world class export marketing programs.

4. Restrictions on Competition: Single Desk Exports

4.1 Background

The Review Team has followed NCP guidelines in undertaking this review.

In so doing, the team has considered all aspects required by the NCPA and applied the 'public interest' test.

The NCP guidelines require that, if legislative restrictions on competition are to remain, it must be demonstrated that:

- benefits to the Australian community as a whole outweigh the costs
- these benefits can be achieved only by restricting competition

The NCP does not offer a standardised methodology for objectively assessing public interest or net public benefit.

The NCP review process places emphasis on the 'economic' benefits associated with the operation of statutory marketing arrangements, notwithstanding a requirement to address 'non-economic' factors, such as social, environmental and regional issues.

The benefits most commonly put forward to justify maintaining single desk marketing include economic premiums generated from market power, and the consequent freight related savings and economies of scale. Costs would include potential efficiency losses arising from monopoly behaviour.

For these benefits and costs to qualify for inclusion in the calculation of the net public benefit under NCP guidelines, they must be generated solely as a result of the operation of the vesting and single desk marketing arrangements.

Export market premiums in principle are generated as a result of a single desk entity exercising market power by controlling the quantity of grain sold into various markets to achieve price premiums.

Unlike statutory grain and cereal marketing boards, SunRice sells most of the NSW rice crop as processed, value-added and branded consumer food products, rather than as bulk commodities. This tends to make economic comparisons with other grains and cereal commodities inappropriate.

4.2 Discussion

Industry support for the single desk is almost unanimous.

Nearly all submissions received by the review claimed that the single desk provided an enormous benefit to the industry and the regional economy by delivering premiums that would not be otherwise achieved.

Only five submissions called for the deregulation of export marketing and three of these were from organic rice growers with issues and challenges particular to their product segment.

The joint industry submission calculated the annual benefits of single desk exporting of rice as:

Benefit	Annual Benefit	Description (Source: JIS)
Export market premiums	\$16.5m	Operation of single desk giving rise to SunRice's ability to extract premiums from its key markets for rice growers as compared to the situation if there was no single desk export marketing of NSW rice.
Sea freight advantage	\$30.3m	The difference in freight costs between (Australia and its key markets) and (Australia's competitors - ex-California and ex-Bangkok - and Australia's key markets).
Sea freight scale	\$3.5m	The scale savings on export freight generated from critical mass arising out of the operation of the single desk.
Conversion scale	\$17.6m	The operational cost scale benefits associated with processing 1.2 million tonnes of paddy rice annually as compared with the 800,000 tonnes annually, which results from an anticipated loss of one third of throughput because of deregulation.
Total	\$67.9m	

Export Market Premium

A single desk provides a marketer with the opportunity to achieve higher overall sales revenue by operating as a price discriminator in charging different prices in different markets.

For this to occur, the markets must firstly be separated in either time or space, and this separation must be maintained so that arbitrage cannot occur.

Secondly, the price elasticities of demand, or the slope of the demand curve, must be different in each market.

If these conditions exist, then a price discriminating monopolist will supply the highest paying market until the marginal revenue in that market is equal to that in the next highest paying market, and so on.

A single desk seller with market power is therefore able to achieve premiums in some markets that increase total industry returns.

To establish whether the single desk allows SunRice to earn a premium through price discrimination, the following combination must be tested:

- whether SunRice achieves higher prices than its competitors?
- whether those higher prices can be attributed to the legislation?
- whether SunRice has market power?
- whether SunRice uses its market power to price discriminate?

Further, there is no single methodology that allows a definitive conclusion and result. The approaches taken by other NCP reviewers point to the use of more than one approach to link market premiums to single desk selling.

The Review Team had access to the data and the model used in the industry's calculation of the export premium. The methodology used is an accepted approach for calculating price premiums and entailed:

- using all monthly export sales totals spanning four years for medium and long grain rice
- sales volumes based on milled tonnes
- sales values at 'ex-mill' rates - excluding costs to port, sea freight and promotional discounts
- Australian prices benchmarked against global reference points using Creed Market Reports and converted to AU\$ using Reserve Bank of Australia (RBA) monthly exchange rates
- Australian export price premiums calculated as:
 - Sales (tonnes) x (actual price/tonne – benchmark price/tonne)
- aggregation

The 2005 methodology included calculations across all markets, unlike those for the 1995 review that covered only those markets where it was considered that market power existed.

The Review Team believed its approach would capture all market premiums capable of being achieved by SunRice.

The team noted that while the costs of promotions and expenses for marketing activities and services were excluded, the approach may not take into account earlier costs incurred in establishing the markets. The Review Team, however, did not see this as a significant issue.

The industry has calculated export market premiums for the four years to 2003 at \$16.5 million per annum or \$27 per tonne.

The amount of premium, and in some cases discount, varied from market to market during the four years. As a general rule, the level of exports to the higher premium markets was greatest.

The premium achieved by the industry in drought year 2003 - when Australian exports were less than half those of the previous year - was markedly lower than in previous years.

These earlier years were considered more indicative returning the level of premium of about \$30 million per annum that is normally achievable.

Information provided to the Review Team showed that the premium for the nine months to January 2005 was \$22.5 million.

SunRice has indicated that the drought affected outcome was heavily influenced by the rapidly appreciating AU\$ against the \$US - in which most exports are transacted - during a year when world prices also increased considerably partially in response to lower supplies from Australia.

SunRice also indicated that it has adopted a more consistent pricing policy in its key markets and this underpinned bigger premiums in more typical years.

The methodology employed in the JIS to calculate the market premium includes elements such as product quality and service and the supply relationships that SunRice has built with its customers, as well as premiums attributable to single desk selling.

It is important to differentiate the two components as, arguably, the amount of the total premium attributable to quality, service and relationship factors would endure in the absence of the single desk.

Independent research commissioned by SunRice in 2001 indicated that at least 55 per cent of the premium was attributable to the single desk.

The Review Team believes that between 55 and 60 per cent of the premium can be attributed to the single desk.

For the 1995 review, research commissioned by the RMB, using an identical methodology to that in the current review, suggested that between 42 and 66 per cent of the calculated benefits of a price premium of \$30 million per annum would be eroded with the presence of multiple competing sellers in the export market.

With regard to market power, SunRice indicated that Australia produces only around 0.2 per cent of the world's rice and contributes only 1.5 per cent of the world trade in rice.

This would, on the face of it, suggest that Australia would have very little capacity to influence price and secure premiums. Australia, however, is one of the largest international exporters of white medium grain rice commanding around 25 per cent of world trade.

An examination of the import markets of Australia's major customers and of the share held by Australia suggests that SunRice's market power varies across markets. In some markets it is likely to have considerable market power and in others less.

The review of SunRice's position in its various markets suggests that export market premiums are generated as a result of market power in the sale of rice to a number of its Pacific nation customers, where SunRice is by far the largest supplier, generally providing 80 to 100 per cent of each national market's needs.

Total sales to Pacific Nations account for around 20 to 25 per cent of the State's rice crop in a normal year

The largest of the national markets is the NSW industry's largest customer Papua New Guinea. It is noted that in drought year 2003, SunRice's sales to PNG were substantially curtailed.

SunRice is unlikely to exert the same market power in other major markets where it generally supplies less than 30 per cent of each nation's market medium grain rice needs.

SunRice says it is able to maintain scale and to assist in countering market power when dealing with the regulated single buying desks in some Asian markets.

This provides Australia with greater negotiating power than its market share in those countries suggests.

Information provided to the Review Team, for example, demonstrated that in 2001, when the seven exporter US rice industry cartel collapsed and US prices in Japan dropped by 51 per cent, Australian prices declined by only 16 per cent.

Those markets in which SunRice appears to enjoy greatest market power are markets in which a freight advantage is also enjoyed.

With regard to the question as to whether SunRice used its market power to price discriminate, the review noted that econometric research undertaken for the 1995 review concluded that there was a strong likelihood that SunRice had market power in the markets tested and that there was a strong possibility that SunRice was able to price discriminate across export markets.

Information supplied to the 2005 Review Team goes to supporting the view that SunRice, in its export marketing strategy, is indeed able to use the single desk and its market power to price discriminate across some markets.

SunRice indicated that it ensured market demand in premium markets was satisfied before selling any remaining tonnage in lower value markets.

Similarly, it stated that it satisfied the higher priced small pack segments before selling into the lower priced larger pack/bulk market segments.

The higher sales volumes in the premium priced markets supports the claim that SunRice employs such a strategy.

The 1995 review concluded that there were clear benefits from single desk export selling, a significant part of which would be competed away in the absence of the existing legislation.

Sea Freight Advantage

The sea freight advantage described in the JIS arises out of the difference in freight costs between Australia and SunRice's key export markets and the freight costs for its competitors – ex California and ex Bangkok - to those key markets.

This was calculated at \$30.3 million per annum and was based on a 2001 study spanning 1998 to 2000 and was considered conservative by the industry.

A precise estimation of sea freight advantage is fraught with difficulties due to the highly competitive nature of shipping and the reluctance of suppliers to provide information for comparative analysis.

The approach taken by the industry has instead been to seek consistent pointers to the order of magnitude.

One such pointer was the calculation of \$30.3 million contained in the JIS.

Another pointer was to use more recent data, for the nine months to January 2005, covering a representative sample of markets. This approach provided an estimate in the order of \$36 million.

A further pointer to accepting that the sea freight advantage is at least \$30 million is that two of Australia's markets account for \$25 million of this advantage.

While the industry submission suggests that \$30 million per annum is a conservative estimate of the advantage, it also says that the magnitude is largely attributable to unprecedented rises in shipping costs during the past two years.

The industry submission noted this situation was likely to ease as the supply/demand imbalance for sea freight was addressed by the construction of new vessels.

As shipping rates ease, the freight advantage would be expected to reduce. At the time of the 1995 review, this benefit was calculated at \$8 million per year.

The JIS argued that the benefit of the sea freight advantage would be competed away by new entrants into the industry without the present marketing arrangements.

The Review Team accepts that the sea freight advantage is attributable to the single desk and agrees that loss of the benefit would occur in the absence of the present marketing arrangement.

The team is not of the view that the benefit would be completely eroded by additional exporters of Australia rice as the extent of this would depend on the number and nature of the competition and the markets targeted.

The Review Team believes that around 50 per cent of the advantage can be attributed to the single desk.

Sea Freight Scale

The scale savings are described in the JIS as the savings on export freight costs generated from critical mass arising out of the operation of the single desk, being the difference between the present SunRice contracted rates and the standard rate that would apply to key markets in Asia, the Middle East and Pacific.

The JIS seeks to adjust the sea freight advantage calculation, which uses 1998 to 2000 data, to use current rates. If the JIS calculation of sea freight advantage calculation were based on current data arguably there would be no separate calculation of sea freight scale

Conversion Scale Benefit

Conversion costs are the total costs excluding materials incurred at any mill.

Conversion costs include salaries, wages and on-costs; engineering and maintenance expenses; energy; depreciation; administrative overheads; and milling and packaging consumables.

The JIS indicated that SunRice has rationalised its milling operations to improve efficiencies and reap benefits of \$17.6 million per annum, a saving attributed to the present vesting and single desk marketing arrangements.

The conversion scale benefit loss described in the JIS is contingent on a notional annual loss resulting from a shortfall of 30 per cent of processing throughput.

The Review Team acknowledges that an ongoing significant reduction in throughput would result in losses due to reduced scale.

The Review Team notes that if the legislation were rescinded there would be a loss of scale to SunRice, but the extent of this needed testing.

As an alternative approach to the JIS evaluation, the Review Team estimated a net cost which took into consideration the operation of a facility handling 200kt, which is the minimum efficient scale of operation for rice processing, and the cost to SunRice of processing 20 per cent less.

The net cost would be \$12 million per annum, which if extrapolated to 300kt would be \$18 million per annum, a level similar to that in the JIS calculation.

International Market Distortions

The JIS stated that relevant current data reinforced the view that systemic distortions continue in the global rice market, including domestic and export subsidies and import restrictions that have an ongoing impact on the market.

Case studies on Japan and Malaysia provided in the submission show:

Total sales to Pacific Nations accounting for around 20 to 25 per cent of the State's rice crop in a normal year

- the loss of market share to the Australian rice industry in Japan because of the introduction of subsidy payments to US farmers in 2000
- the lack of opportunity the Australian rice industry has in the Malaysian market because of strict limitations on market access

The JIS argues that the present vesting and single desk marketing arrangements counter the impact of international market failure.

The Review Team accepts that there continues to be significant market distortion in the international trade of rice attributable mainly to the following:

- assistance and subsidies paid to producers in most rice exporting countries, particularly major export nations
- access restrictions to many markets

The Review Team accepts that there will continue to be market failure in the international trade of rice and that this will continue to challenge the Australian rice industry in both its export and domestic markets.

Rice trade traditionally has been highly protected in both industrialised and developing nations, however trade liberalisation is having an impact on the international rice market.

The 1994 WTO-sponsored Uruguay Round agreement on agriculture resulted in some gains in trade liberalisation in reducing agricultural tariffs, export subsidies, and domestic support, which, in turn, have benefited the international trade in rice.

The gains achieved in the Uruguay Round, along with regional trade agreements and national policy reforms, have contributed to the significant increase in global rice trade, which has approximately doubled since the mid-1990s.

Notwithstanding this, the latest WTO round of agricultural trade negotiations at Doha in Qatar proved disappointing, with few trade reform gains being achieved.

Specific gains under WTO regional trade agreements and national policy reforms, include a number of significant wins, such as the partial opening of the Japanese, South Korean and Taiwanese markets, from which the NSW rice industry has benefited.

Japan is now the NSW industry's second largest customer, accounting for about 16 per cent of exports in a 'normal' year, with Taiwan, accounting for around 4 per cent of exports, is among Australian rices' top 10 customers.

4.3 Assessment

The Review Team supports the continuation of the single desk export selling because of the benefits generated to growers.

These benefits include market premiums, freight advantages and economies of scale in processing which would be significantly eroded in the absence of the legislation.

The benefit in market premiums attributable to the legislation is, in the view of the Review Team, in the order of \$15 million per annum.

This figure takes into consideration the fact that the industry estimate covering four years is heavily influenced by the impact of the drought.

The team also acknowledges that some of the premium is attributable to factors other than the single desk.

Regarding the sea freight advantage, the Review Team is of the view that around \$15 million per annum can be attributed to the legislation.

This estimate takes into consideration the likely magnitude of the present advantage and an anticipated reduction to freight rates.

The Review Team believes the separately identified sea freight scale is incorporated in the sea freight advantage.

In terms of the conversion scale benefit attributable to the current marketing arrangements, the Review Team accepts the JIS estimate of just under \$18 million per annum.

The Review Team estimates that the benefits of single export desk selling of Australian rice are of the order of \$48 million per annum.

5. Restrictions on Domestic Market Competition

5.1 Background

As virtually the sole supplier of Australian rice to the domestic market, the NSW Ricegrowers' Cooperative Ltd has monopoly power in setting the price for Australian rice on the domestic market.

The marketing arrangements enable the Cooperative to charge a different price on the domestic market from that on the export market. This is referred to as price differentiation or discrimination.

Growers receive a pooled or average return from sales on the domestic and export markets. This is called price equalisation.

In a competitive domestic market, the prevailing price would be at export parity. Under the current marketing arrangements, monopoly rents are achieved in the domestic market by charging prices higher than export parity.

The extent of these monopoly rents will depend on the level of import parity prices and the level of competition from imports. Import parity is generally higher than export parity, reflecting the costs of transport from overseas sources.

The Cooperative could set prices between import and export parity for the varieties it supplies with little effective competition from imports.

If prices are set above import parity, imports become price competitive and there would be substitution between Australian and imported rice.

The result of price differentiation is a transfer of income and resources from Australian rice consumers to Australian rice producers. This is referred to as producer transfer.

Price differentiation also has a welfare loss through lower consumption of rice than would be the case if domestic prices were lower at export parity levels.

Price equalisation can lead to an overproduction of rice. This is referred to as the resource misallocation cost of equalisation.

Just as prices received are pooled, so are some costs. Growers are individually responsible for arranging and meeting the costs of transporting their rice post harvest to receiving depots, having received advice pre-sowing of which receiving stations will be operating and applicable varietal zonings.

Other costs are pooled or averaged among growers and deducted from pool payments. Pooled costs include storage, transport, milling and maintenance and marketing services.

Pooling costs means some growers cross-subsidise others. The relative profitability of growing rice in different locations is affected.

Where the actual cost of providing a service is not reflected in the charges for that service, economic inefficiencies and misallocation of resources might occur.

Discussion

The JIS indicated that there had been significant changes in the domestic rice market during the past decade that had seen the domestic rice market power of the NSW industry diminished.

The submission said unrestricted rice imports had increased from 30,000 tonnes in 1993 to more than 80,000 tonnes in 2003. Imports now accounted for about 40 per cent of domestic consumption in Australia.

- the price of this imported rice is underwritten by the agricultural assistance/protectionist policies of the exporting countries
- major wholesalers and retailers in Australia are increasingly participating in global procurement, particularly with the view to reducing their costs for staples such as rice
- the NSW rice industry has responded to the dynamics of the domestic market by aggressively competing in the retail, food service and food processing segments, and by pursuing the development of high value consumer products to broaden the market base for Australian rice

Since the 1995 review, there had been major changes in the domestic market with a trebling of imports, improvements in consumer choice and a greater market concentration in the retail sector thereby increasing retailers' share of the final price.

The industry canvassed the growing influence that grocery retailers have in the retail rice category.

It referenced a report commissioned and released by the Australian Department of Agriculture Fisheries and Forestry in March 2004 entitled 'Price Determinants in the Australian Food Industry'.

This report indicated:

- the increasing share of retail sales that retailers commanded in the important 1kg pack white long grain rice segment. This share was calculated to range from 25 to 35 per cent
- the increase in the retailers' share of this available value was derived at the expense of the NSW grower/processor.

In its submission, the industry calculated the producer transfer at an average of \$3.4 million per annum. The industry calculation was based on:

- the four years 2000-01 to 2003-04
- the major varieties of medium grain, long grain and fragrant rice which accounted for 91 per cent of the domestic market in 2003-04
- domestic prices compared with those of export parity

The calculations indicated:

- prices above export parity were received for medium and long grain rice
- domestic fragrant rice prices achieved were consistently less than export parity pricing, which was attributable to a market preference for Thai fragrant rice
- an overall downward movement in the domestic market premium

Data provided to the Review Team indicated that the industry did not have pricing power in the long grain and fragrant varietal segments and that producer transfer occurred only within the medium grain segment.

The premiums achieved in the long grain segment were attributed to branding and packaging and not market power from the marketing arrangements.

Data provided to the Review Team suggested that some of the \$3.4 million premium for medium grain could also be attributed to branding.

The view was expressed in the industry submission that should deregulation occur, because of market concentration in the retail sector, there would be little, if any, savings available to consumers.

Even though a producer transfer existed, the JIS argued that the benefits of this currently go to the Australian consumer as the cost transfer is reinvested in on-farm innovation, infrastructure and value-added products.

With regard to the likely welfare loss associated with the producer transfer, as an input to the 1995 review, NSW Agriculture estimated this as ranging from \$100,000 to \$1.3 million per year.

The Review Team believes that any current loss is not large. It is nevertheless a factor to be acknowledged when considering the total domestic cost of the present arrangements.

Since 1995, import competition and consumer choice have increased and the producer transfer associated with price discrimination has declined.

It is the view of the Review Team that the welfare loss is lower than that estimated in the 1995 review.

The 1995 industry review estimated that the resource allocation cost of price equalisation was then in of the order of \$150,000 per year.

The JIS stated that it did not believe that there was any resource misallocation in the industry as a result of price equalisation, as the quality discount and premiums effectively addressed the issue and ensured that growers received the correct signals regarding market preferences.

The Review Team believes that the practice of including shareholder and other activity 'bonuses' as part of grower payments for rice does not give growers the right signals as to market requirements for varieties and quality.

Shareholder bonuses are determined by the SunRice Board and are paid to growers on a dollar per tonne basis delivered in a crop year.

Other activity bonuses are based on the net profit generated by SunRice's non-core business units and are also paid to growers on a dollar per tonne delivered basis.

The bonuses are a premium return on the profitability of SunRice and its subsidiary businesses and have little to do with the returns for growing rice, particularly when it is considered that in 2003 bonuses amounted to 13 per cent of grower returns and were four times the level of the average premium paid.

Furthermore, two-thirds of the 2003 bonus was attributable to SunRice's non-core business units.

Data provided to the review by industry indicated that the level of subsidisation of transport from receiving shed to milling facilities, for the three years 2001 to 2003, was an average of \$1.9 million.

The rationale for the subsidy was to encourage the growing of rice in locations furthest from mill sites to maintain a level of mill throughput that achieved operational economies of scale.

According to the JIS, the savings from economies of scale more than offset the cost of subsidising the transport from receiving shed to mills.

The industry argued that provided the subsidised shed to mill transport resulted in at least 100,000 extra tonne volumes the subsidy was justified and all growers benefited.

The Review Team has not assessed the extent to which the subsidisation has led to any economic inefficiencies or resource misallocation in the rice industry as the information available for this assessment is limited.

The 1995 review showed that, in addition to the subsidies involved in storage to mills, cross subsidies occurred also in transporting milled rice to port and in milling.

The industry argument at the time was that the cross subsidies effectively cancelled each other out with growers receiving a transport subsidy contributing to a cross-subsidy for milling costs and vice versa.

The industry took the view that efficiency gains from eliminating cost pooling would be limited as the impact on returns to most growers would be marginal.

Since that time considerable restructuring of receiving and milling facilities has occurred.

During the past five years, SunRice has closed smaller mills and increased the capacity at three key mills.

Individual submissions to the review from three NSW organic rice growers argued that current arrangements of vesting and single desk selling on domestic and export markets inhibited market development and grower returns for organic produce.

While organic rice was 'catered for' under the present industry structure, the management process was described as being insufficiently flexible in serving the needs of niche market growers and their returns were claimed to be at least 50 per cent lower than they might be.

These lower returns were in part attributed to the higher costs associated with segregating niche rice during storage and freight.

The organic growers called for the staged deregulation of the organic rice industry.

In information supplied to the Review Team, SunRice indicated that – in accepting all NSW grown rice – it was fully aware of its responsibility to meet niche market needs and those of growers wishing to supply special markets.

SunRice outlined its approach to a number of niche markets in Australia. This approach was to assess any request by growers to supply a niche market as follows:

If the market was already serviced by SunRice, it would work with the growers to optimise returns within the system. Premiums were paid to growers and the costs of segregation were incorporated in the return to growers. If the market was not currently serviced by SunRice and it did not consider the market to be viable, it might enter an agreement with the niche growers under which SunRice would pay a premium for the rice which SunRice received, processed and stored separately in accredited facilities and then milled and transferred back to the niche growers who would meet the cost of receiving, processing and storing the produce.

The 1995 Review Group agreed that as a result of vesting, SunRice was able to influence the price of Australian rice in the domestic market, which resulted in a transfer of income from consumers to rice producers, or a consumer transfer loss.

The 1995 Review Group concluded that vesting enabled cost pooling and revenue sharing, which imposed an efficiency cost on the industry. The group therefore did not support the continuation of the vesting arrangements.

The Group recommended that *'the NSW Government agree to the deregulation of the domestic rice market by not renewing the current vesting powers of the NSW Rice Marketing Board after January 1999'*. This arguably would provide for competition in the provision of rice storage, transport, processing and value adding.

The group also recommended that *'the NSW Government apply to the Commonwealth Government for an export licence or equivalent that provides a single desk export arrangement for the rice industry to commence on 1 February 1999'* to maintain the benefits accruing from single desk exporting.

While the Commonwealth Government sought unanimous agreement from all State Governments to a Commonwealth sponsored single desk for rice industry exports – a prerequisite to abolition of the NSW vesting arrangements – agreement was not secured. As a consequence, the NSW Government has maintained the vesting arrangements.

5.3 Assessment

The domestic market for rice increased by 46 per cent between 1995-96 and 2003-04.

During this period, the volume of rice from protected markets imported into Australia has more than doubled from 22 per cent. By contrast, the quantity of Australian rice consumed has increased by a modest 14 per cent in this time.

In the market segment most important to producers – white medium grain – NSW has maintained its share in a market that increased by 49 per cent for the decade to 2003-04.

White medium grain remains the most popular choice of consumers in Australia and in a number of important overseas markets. In the fragrant and long grain rice sectors Australia has lost share as well as experiencing a 9 per cent drop in delivered volume.

The Review Team acknowledges that import competition has eroded the market share of Australian produced long grain rice during the past few years.

The team notes that the producer transfer calculated by the industry has fallen to a level just over half of that calculated in the 1995 review.

This is attributable to increased import competition and market power associated with the concentration of a small number of major players in the retail grocery business across Australia.

The Review Team is of the view that the producer transfer is less than the \$3.4 million per annum estimated by industry.

The team believes that it is no more than \$3 million per annum. Furthermore, the transfer of income from consumers is expected to decline further as competition from imports continues to grow.

The net benefit of the existing legislation can thus be summarised as:

Benefits	Descriptions	\$ pa
	Export premiums	15 m
	Sea freight advantage	15 m
	Conversion scale benefit	18 m
Costs		
	Welfare loss associated with producer transfer	<1.3 m
	Resource misallocation cost of price equalisation	< 0.15m
 Net Benefit		 > 46.55 m

With regard to the impact on resource allocation of cross-subsidisation, the Review Team, while acknowledging the existence of cost cross subsidisation, recognises that this does not in itself mean that resource misallocation has occurred.

Nevertheless, the team is of the view that transparency of all actual costs to growers would ensure that the best resource allocation occurs in the production of rice in NSW.

It is suggested that in the interests of achieving greater transparency and to minimise any resource misallocation, in addition to providing pre-season information, SunRice should itemise actual costs incurred and charged to growers in grower return statements.

6. Regional Development Considerations

6.1 Background

NCP principles require that economic and regional development, employment and investment are factors that need to be considered in the review of legislation under the National Competition Policy Agreement.

6.2 Discussion

The regional benefits of the marketing arrangements were mentioned in nearly all submissions supporting maintenance of the industry status quo.

The industry submission stated that the total income generated directly and indirectly within the region by the rice industry represents 20 per cent of total regional income.

Similarly, direct and indirect employment generated by the rice industry represents 18 per cent of total regional employment.

The submission also stated that the industry provided a wide range of skill requirements; provided for a high level of investment in the region; and made the region one of economic importance to the State.

In their submissions, the local government councils of the region – individually and collectively through the Murray Regional Organisation of Councils (MROC) – also identified the large direct and indirect effects of the rice industry on the regional economy and its importance to investment and growth.

The Leeton Shire Council, for example, says it *'can attribute the growth and current health of its community and economy largely to the influence and input from the growth and processing of rice and to the manufacture of rice based products'*.

MROC, in its submission, indicated that the *"2300 farms and more than 60 communities in the rice regions generated a farm gate value of \$330 million per annum and value-added earnings of more than \$800,000 per annum"*.

With flow-on effects, MROC estimated that the rice industry contributed over \$4 billion annually to the Australian economy.

MROC also stated that the rice industry invested significantly in environmental improvement and impact reduction, as part of its charter towards better natural resource management and environmental stewardship.

The submission by Leeton Shire Council outlined the direct and indirect effects on the Leeton region as:

- direct employment in Leeton of 464 (main office, mill, and processing facilities)
- 450 directly employed on farm
- 18.5 per cent of workforce directly employed
- wages and farm revenue inject \$4.3 million per annum into the Leeton economy
- using a multiplier effect of 2.5, this represented a total of nearly \$200 million per annum within the Leeton economy
- the establishment of engineering, transport, farm equipment manufacturing and agronomy businesses

The submission stated that Leeton had experienced growth which was largely attributed to the rice industry over the past decade with unemployment, despite the ongoing drought, lower than the State average.

A submission by the Wakool Shire Council similarly outlined the beneficial impact of the rice industry on the shire as:

- 236 people employed directly in growing rice
- \$4.2 million per annum of farm gate revenue
- total direct employment in the rice industry representing 9 per cent of the shire's workforce

The 1995 Review also identified strong regional benefits from single desk export selling and, in supporting the continuation of the single desk, noted that the higher payments received led to downstream multiplier effects in the southern NSW rice growing regions than would be the case with multiple sellers in key export markets.

The 1995 Review Group also stated that in the domestic market context, regional benefits alone were not sufficient to justify statutory marketing arrangements where the benefits for one sector of the Australian economy were at the expense of another.

6.3 Assessment

The importance of the rice industry to the economies of southern NSW rice growing regions is unquestionable.

The relevant question for consideration in this review is the contribution the current marketing arrangements make to this regional importance.

The Review Team supports the continuation of single desk export selling because of the higher returns that can be earned by utilising the system.

The higher returns provide a higher level of income to the region than would be the case in the absence of the single desk and the regional benefits of this are considerable.

The Review Team notes that the benefits to the regional economy are derived primarily at the expense of offshore consumers and that the cost to domestic consumers is relatively small and diminishing.

The domestic cost is geographically dispersed whereas the regional benefits are geographically concentrated and make a significant economic and social contribution to the local economy.

7. Environment

7.1 Background

Environmental aspects need to be considered in reviewing legislation under the National Competition Policy Agreement.

7.2 Discussion

A large number of submissions stated that the rice industry was an environmentally aware and responsible industry and that through current marketing arrangements the industry was highly integrated with strong linkages between researchers, community groups and regulatory authorities.

Through this integration, the industry had accepted responsibility for adopting measures that aim to safeguard the environment while improving production efficiencies.

The JIS stated that ‘all rice produced and sold under the marketing arrangements must meet a set quality assurance standard and comply with the rice growing environmental controls outlined in the Rice Environmental Policy’.

The submission further stated that this offered long term benefits to the Australian community but came at a cost to growers.

The submission pointed out that:

“ rice growing controls, governed independently by the industry, are aimed at reducing accessions to groundwater, hence preventing water table rise and resultant water logging and soil salinity. This is achieved by ensuring that rice is only grown on suitable soils; through imposing a ceiling on the density of rice grown on the land, rotation of land for rice cropping; and ensuring that rice production does not exceed maximum target water use levels”.

In the view of the JIS, in a deregulated environment, there would be less incentive for growers to invest in and pursue sound environmental management practices.

At the time of the 1995 Review, the then NSW Department of Agriculture evaluated the impact on land degradation of the marketing arrangements.

The Review Group concluded, on the basis of NSW Agriculture research, that there was an extremely small (\$76,000 per annum) net cost attributable to the marketing arrangements. This cost was slight in the context of the benefits flowing to the economy and community of the Riverina.

7.3 Assessment

The Review Team has assessed a raft of information relating to environmental issues including agricultural sustainability and natural resource management best practice.

It is acknowledged that the industry collectively has sponsored significant advances in environmental management standards since the 1995 Review - particularly in irrigation water/runoff and chemical best management practices - at all levels.

The Review Team believes it is reasonable to conclude that the collective approach to environmental management has led to greater advances - particularly in the management of water - than might have been achieved if the industry had been deregulated.

While these improvements are difficult to economically quantify, they nevertheless cannot be ignored as, by definition, they represent a contribution to the net public benefit.

It is also clear that fragmentation of the industry as a result of structural change might impact adversely on future benefits arising from continuing improvements in this economically critical natural resource management area.

The Review Team is of the view that the current statutory arrangements provide for better environmental outcomes than would be the case in an unregulated market scenario.

8. Research and Development

8.1 Background

The National Competition Policy Agreement specifies that it is incumbent on any review of legislation to take into consideration all aspects raised in submissions to the review. Research and development (R&D) was an issue raised by many submissions to this review.

8.2 Discussion

The NSW rice industry has an ongoing rice varietal program with the NSW Department of Primary Industries and a range of other programs run in conjunction with organisations such as the Grains Research and Development Corporation, Rural Industries Research and Development Corporation and the Co-operative Research Centre.

Many submissions to the review stated that the current marketing arrangements were instrumental in achieving gains including environmental gains through research and development.

The JIS, for example, stated that marketing arrangements 'in successfully securing premiums for Australian rice in global markets, despite the market distortions, has provided the economic justification to undertake R&D and to pursue the early adoption of innovative techniques and practices'.

The submission pointed out that:

- There is considerable annual expenditure on rice industry research and development.
- This research covers everything from pre-farm gate through processing to the development of value added products.
- The success of this investment is evidenced by:
 - significant improvements in water use efficiency
 - on farm yields
 - milling yields
 - reductions in conversion costs
 - constant stream of new product development.

8.3 Assessment

The Review Team has assessed information provided relating to research and development in the rice industry in Australia.

It is acknowledged that the industry has made significant gains through research, development and innovation that make it arguably the most efficient producer and processor of high quality rice and rice products in the world.

The team also recognises that the industry relies heavily on varietal development to maintain its competitive market edge internationally.

The Review Team believes that the same arguments applying to environmental management apply to R&D and innovation.

The team is of the opinion that fragmentation of the industry arising from structural change may impact adversely on the effectiveness of future R&D and innovations and benefits accruing from these.

9. Public Accountability

9.1 Background

Vesting of the NSW rice crop in the Rice Marketing Board and thus transferring ownership of the commodity from growers to the RMB is a significant power and responsibility and requires a corresponding set of accountabilities.

The RMB under the State Act is accountable to Parliament and the Minister.

As noted in Section 2.1 of this report, the RMB under its sole Agency Agreement with the Cooperative, has transferred effective control of the sale of the rice crop to the Cooperative.

The Cooperative also undertakes the operation of the Board's storage facilities, the operation of the pooling system, payment to growers and borrowings.

This requires the Cooperative not only to be accountable to RMB but to be so in a way that does not dilute the RMB's accountability to Parliament and the Minister.

Section 2.1 outlined the structure and makeup, including cross-memberships, of the boards of directors of RMB and the Cooperative.

Two RMB board members are appointed by the Minister along with three grower elected directors.

The board of the Cooperative consists of the three grower directors of the RMB, in addition to four other grower elected directors, two external directors and the Chief Executive Officer of the Cooperative.

The issue of the need for accountability by the Cooperative in relation to its exercise of the RMB's powers was addressed in the 1995 Review.

At the time, government representatives on the Review Group had reservations about public accountability issues. The 1995 Review Group noted that rice growers did not share these concerns and did not recommend any changes.

Discussion

The JIS offered the following:

In recognition of the need for transparency and accountability, the Australian rice industry is prepared to consider the establishment of a regular reporting process to the NSW Government in which the industry would demonstrate continuing community benefit, particularly in the areas of competition policy, governance, regional development and the environment from the marketing arrangements.

The JIS stated that “this (current relationship) structure provides for a good balance of independence, appropriate expertise and knowledge across the two organisations”.

It said “both organisations maintain appropriate corporate governance practices”.

It further stated “the boards of the RMB and SunRice receive regular community input in their deliberations to ensure the interests of the community are addressed”.

The Review Team has taken account of the above points and has the following comments:

- it is recognised that this structure has history – being in place in a variety of configurations since 1985 - and that it generates efficiencies in the operation of the RMB through the Agency Agreement
- it is further recognised that the present board structures and arrangements of both organisations mean there is a high level of synergy at board level between the organisations
- cross directorships raise a number of issues about perceptions of RMB independence of and its ability to objectively meet its statutory obligations

As the grower members of the RMB are also directors of the Cooperative, it could be argued that they have conflict of interest when assessing the performance of the Cooperative under the agreement with the RMB and when considering its renewal.

Against this backdrop, with the aim of assessing how the RMB fulfils this obligation, the Review Team sought information on the recent annual reviews required for extension of the current Agency Agreement including what criteria and benchmarks were used to assess performance along with details of who carried out and approved reviews.

The Review Team was provided with the following information by the RMB:

- Although the current practice of the RMB in conducting the annual review does not include the use of benchmarks, it does ensure that the existing arrangements continue to deliver optimal benefits to NSW rice growers.
- Under the Agency Agreement the three grower elected members of the RMB are required to be on the SunRice board. This provides the RMB with ongoing knowledge of the operations of SunRice and allows the Board to assess the effectiveness of the activities of SunRice on a continuing basis. In addition the board of the RMB review the financial performance of SunRice on a monthly basis.
- The reviews conducted in 1995, 2001 (an internal review), and the current review, along with ongoing monitoring, enable the RMB to ensure that the arrangements are in accordance with the RMB’s objectives to maximise the return to growers.

The RMB indicated it was open to suggestions and recommendations to improve on current practices and would support the introduction of more formal arrangements, if required.

While the information and actions described in the JIS and in subsequent information supplied are comprehensive, the Review Team is of the view that if there was a defined review mechanism or methodology objectively monitoring the Cooperative's performance, NSW growers would be better able to assess whether they were receiving the best possible return for their rice on an annual basis.

It is clear that the RMB has a close relationship with the Cooperative at all levels through its physical proximity, the fact that the Cooperative effectively undertakes all RMB's operations and through cross-directorships of both boards.

It is also clear from the information the Review Team has received that the RMB utilises this close relationship as a means of monitoring the performance of SunRice in meeting its obligations under the Act.

It is recognised however that, in today's business and political environment, a more rigorous and critical assessment and monitoring process would assist in meeting contemporary standards for best practice.

The Review Team is of the view that initiatives are needed to ensure that the RMB has adequate measures in place to transparently assess the performance of SunRice in achieving its obligations.

In this context, the Review Team notes the RMB's willingness to *"consider the establishment of a process of regular and transparent reporting to the NSW Parliament"*.

While the presence of ricegrower representatives on the board the RMB is critical, the current practice of having these representatives also sitting on the board of the Cooperative raises the questions identified in the 1995 Review of conflict of interest.

The Review Team highlights for consideration these issues relating to the make up of the RMB board:

- The current practice of having the three grower-elected directors serving on both the RMB and the SunRice boards
- The fact that grower-elected directors hold the controlling interest in the five member RMB board

9.3 Assessment

The Cooperative is arguably in a unique position in which it enjoys the benefits of legislated vesting and single desk marketing without objective arms length scrutiny of its performance in advancing grower interests.

It is the view of the Review Team, this lack of transparently independent scrutiny could result in the Cooperative practising 'minimal information transfer' to stakeholders and the general public.

It is the view of the Review Team that the NSW Rice Marketing Board has evolved in real terms to be an extension of SunRice.

Cross directorships between the two organisations offer the perception, at least, of possible conflicts of interest for cross-directors of SunRice and the NSW RMB.

The RMB is responsible for substantial infrastructure assets held on behalf of ricegrowers and these assets can be described as having helped underpin vesting and SunRice's single desk monopoly status.

In terms of its relationship with the RMB, SunRice is the major source of vital on-going production and commercial intelligence which the board must use to fulfil its obligations – including monitoring the activities and performance of SunRice - under the terms of the NSW Marketing of Primary Products Act 1983.

While there is no suggestion by the Review Team that current relationships are in any way compromised, it is considered that the interests of NSW ricegrowers and the broad community would be best served if the relationship between RMB and SunRice were reorganised to achieve greater independence and transparency.

This would undoubtedly serve the positive causes of accountability, corporate governance, the management of grower assets and optimised grower returns, in what the Review Team sees as the spirit and intent of the NSW Marketing of Primary Products Act 1983.

The Review Team recommends an independent review of the relationship between the RMB and SunRice.

This review might be conducted with a view to introducing changes to the RMB to ensure:

- clearly independent performance monitoring takes place
- potential conflict of interest structures are addressed
- appropriate best practice governance procedures are adopted and promoted

10. Conclusions and Options

This review of legislation establishing the Rice Marketing Board was undertaken under the National Competition Principles Agreement and requires that the net public benefit test is applied.

The Review Team reached the following conclusions on the legislation:

The primary benefits of the legislation were:

- export market premiums
- sea freight advantages
- economies of scale in processing

These benefits were obtained primarily from single desk export selling by SunRice.

On the basis of information supplied to the review by the rice industry, it is estimated that the benefits are of the order of \$48 m per annum.

Regional and environmental benefits were also identified.

The primary costs of the legislation were:

- inefficiencies in rice consumption and production resulting from the practice of cost pooling
- price differentiation and equalisation

The Review Team notes from the 1995 review that efficiency losses were estimated to be no more than \$1.45 million. The Review Team believes these losses are lower in 2005.

The net public benefit arising from the current vesting and single desk marketing arrangements was in the order of \$46.5 million per annum.

Given the relative magnitude of the benefits compared with the costs, the benefits of the legislation far exceeded its costs.

There was also a currently declining producer transfer of around \$3 million per annum, which does not enter the net benefit consideration.

The 1995 Review Group considered three options for legislation to establish the NSW Rice Marketing Board. These were:

- no change to the current arrangements
- deregulation of both domestic and export markets
- deregulation of the domestic market and the retention of single desk export selling

The 1995 Review Group concluded that Option 3 above was its preferred option as this option preserved the benefits of single desk export selling identified in the review, while notionally reducing the efficiency costs.

The 1995 Review Group made a number of recommendations to put its Option 3 into effect, including one that the NSW Government apply to the Australian Government for an export licence or its equivalent to provide a national single desk export arrangement.

Subsequently, following failure to achieve State and Territory agreement, the Australian Government abandoned its attempt to establish a single national rice export desk.

The 2005 Review Team considers that the broad options considered in the current review are similar to those of 1995, but in the current environment for a range of reasons a single national rice export desk does not now appear to be a viable option.

The Review Team's findings in regard to this are discussed below.

10.1 Option 1: Total Deregulation

The Review Team found that the benefits of single desk exporting - through market premiums, sea freight advantage and economies in conversion - at around \$48 million per annum - are considerable, and that these benefits would be lost if Option 1 were to be implemented.

The Review Team also found that regional economic and environmental benefits could be foregone by pursuing this Option 1.

There are, however, some relatively minor efficiency costs in rice consumption and production resulting from the practice of price differentiation and equalisation and cost pooling associated with not pursuing this option.

These costs, however, are small by comparison with the benefits of not pursuing this option.

The Review Team thus rejects Option 1.

10.2 Option 2: Deregulate Domestic Market; Retain Single Export Desk

If it were possible to achieve deregulation of the domestic market while maintaining the benefits of single desk exporting, the Review Team would favour Option 2.

This would not put at risk the considerable benefits from the export market and would avoid the efficiency costs and reduce the restrictions on competition associated with the vesting arrangements.

There is arguably no workable failsafe mechanism however to protect these benefits other than through a national single desk, an approach which has been previously ruled out.

If the domestic market in NSW were to be deregulated, for example, in reality there would be nothing preventing purchasers of NSW rice exporting from other States.

Presently all NSW rice is exported through either Melbourne or Geelong.

Logically, such purchasers, targeting export premium Pacific markets, would erode what are currently industry-wide premiums and freight advantages.

The objective of avoiding a relatively small domestic cost is not in itself a valid justification for putting at risk the considerable economic benefits of export single desk selling.

The Review Team thus rejects Option 2.

10.3 Option 3: Maintain Current Arrangements

As no practical alternative arrangements are available which preserve the considerable economic benefits associated with the single desk export market but avoid the costs associated with a regulated domestic market, maintaining the status quo, as in Option 3, is the preferred option of the Review Team.

While the team supports maintenance of current selling arrangements, it is of the view that initiatives need to be taken to ensure the RMB has measures in place to transparently assess the performance of SunRice and that there be a more 'independent' relationship between the RMB and SunRice.

The team endorses Option 3.

11. Recommendations

The Review Team makes the following recommendations.

Recommendation 1

- retain single desk export marketing arrangements for the NSW rice industry

Recommendation 2

- retain domestic market vesting powers

Recommendation 3

- make the NSW Rice Marketing Board and the Ricegrowers' Cooperative Ltd Board more transparently independent of each other

Recommendation 4

- establish more rigorous protocols for RMB accountability to Government in assessing and communicating SunRice's performance in delivering grower and community benefits

Recommendation 5

- account separately for SunRice grower payments for rice varieties and grades and Cooperative member bonuses to communicate more accurate market price signals to growers

Recommendation 6

- disaggregate and report to individual growers the costs for the delivery of their rice to receival depots and/or mills

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ACN: 107 371 675

Attachment A - Summary of Submissions received

Attachment A - Summary of Submissions received

Ref:	From:	Organisation:	Via:	Pages:
S001	Stephen Doyle	Deep Bore Users Assoc Murray Valley	Fax	1
S002	Tinkler Family	Grantham Nominees Pty Ltd	Email	1
S003	Phil O'Hare	"Greendale" Beckom	Post	1
S004	Anne Gribble	Gribble Family Trust Yenda	Fax	1
S005	Richard Leonard	CR & JN Leonard - Coleambally	Fax	2
S006	Jill Simpson	Farm 1613 Yenda	Fax	1
S007	Simon Phillips	SJ Phillips Berrigan	Fax	1
S008	GJ & JI Wright	"Burwan" Deniliquin	Fax	2
S009	Alan V Wray	Wood Park Coleambally	Fax	1
S010	Roger Reynolds	"Watsonia" Berrigan	Fax	1
S011	Russell Anthony	"North Kooringle" Barham	Fax	1
S012	Stuart Nixon	"Cooinda" Finley	Fax	1
S013	G & D Druitt	"Mayo" Coleambally	Fax	2
S014	Ian Turner	"Beresford Farms" Pennant Hills	Mail	19
S015	K Groves	Farm 119 Coleambally	Fax	1
S016	K M Groves	K Groves & Co Coleambally	Fax	1
S017	Peter Braybon	"Woodville" Tocumwal	Fax	1
S018	Paul Sexton	RMB 2190 Tocumwal	Fax	1
S019	RJ & MA Dixon	"Koonol" Jerilderie	Fax	1
S020	Russell Henderson	"McPherson Farms" Deniliquin	Fax	1
S021	Rodney Anthony	"Kooringle" Barham	Fax	1
S022	Mr & Mrs NJM Lowing	"Burrindi" Moulamein	Fax	1
S023	AM Anthony	"Billabong" Moulamein	Fax	1
S024	M & K Hawkins	"Momala" Berrigan	Fax	1
S025	Bill Petzke	Arnold Lane Jerilderie	Fax	1
S026	JC & JA Hand	"Eddington" Deniliquin	Mail	1
S027	PS & WO Hayes	"Windra Vale" Deniliquin	Mail	2
S028	M & M Groat	Farm 1641 Beelbanger	Mail	1
S029	Philip Gregory	"North Coree" Jerilderie	Email	1
S030	Graham Dufty	Farm 460 Leeton	Email	1
S031	Tony Ellwood	?	Email	1
S032	G & S Ham	93 Coreen Street Jerilderie	Email	1
S033	David May	"Yarranvale" Barham	Email	1
S034	Dennis Hill	Farm 166 Coleambally	Email	1

Ref:	From:	Organisation:	Via:	Pages:
S035	Trent Gardiner	Farm 160 Coleambally	Email	1
S036	Chris Leonard	Farm 521 Coleambally	Email	2
S037	G.I. Paisley?	Farm 103 Coleambally	Fax	1
S038	R& J Hehir	"Myola" Finley	Fax	1
S039	AR Fattore	Coleambally Automotive Centre	Fax	2
S040	A&G Machinery	Griffith	Email	3
S041	John Jamieson	"Evithvale"	Fax	1
S042	B & N Rose	Rose Farming Enterprises - Coleambally	Fax	1
S043	LP & N White	Farm 569, Coleambally	Fax	1
S044	David & Sally Marsden	"Tunstall" Finley	Email	2
S045	R.W. Dawson	8 Busby Place, Frenchs Forest	Fax	2
S046	D & J Urquhart	"Woodlawn" Tocumwal	Fax	1
S047	Bruce Clarke	Farm 564 Coleambally	Fax	1
S048	H&J Kooloos	"Amarran" Deniliquin	Fax	1
S049	J & J Lovell	"Poorinda" Coleambally	Fax	1
S050	H & V Cudmore	Farm 39L Benerembah Griffith	Email	4
S051	David Holloway	"Englmark" Coleambally	Email	1
S052	Charles Mills (Uardry) P/L	"Uardry" Hay	Email	1
S053	J M Seamer	Farm 219A	Fax	1
S054	Langtry's Pty Ltd	"Quarrion" Wakool	Fax	1
S055	Mark Harris	"Silent Retreat" Moulamein	Fax	1
S056	Ian B. Douglas	"Brigadoon" Barham	Fax	1
S057	C & R Bryce	"Canawindra" Finley	Fax	1
S058	AR & HE Adkins	"Glenholm" Tocumwal	Fax	1
S059	G. E. Dufty	Farm 460 Leeton	Fax	1
S060	P & L McCallum	"Maloga Park" Moama	Fax	1
S061	A.G. Boyd	"Kuringle" Deniliquin	Fax	1
S062	G.W. Rathbone	RMB 186A Deniliquin	Fax	1
S063	Daniel LipHuyzen	"Lochinvar" Deniliquin	Fax	1
S064	Giacinto Quarisa	GA & TM Quarisa	Fax	1
S065	Robert J. Kerr	"Boondilla" Coleambally	Fax	1
S066	P. Lowden	"Bull Plain" Corowa	Fax	1
S067	M.J. Keable	"Barakool" Barham	Fax	2
S068	A.E. Owers	Box 118 Moulamein	Fax	1
S069	Bernard J. Whelan	Farm 1766 Whitton	Fax	2

Ref:	From:	Organisation:	Via:	Pages:
S070	CL & GC Taylor	"Glenleigh" Finley	Fax	1
S071	Tricia Harris	Balpool Road Moulamein	Fax	1
S072	NH & DL Bradford	"Reatta" Tocumwal	Fax	1
S073	I. Kelly	Farm 189 Coleambally	Fax	1
S074	David Porter	"Miegunyah" Booroorban	Fax	1
S075	DM Kelly	Farm 189 Coleambally	Fax	1
S076	Deborah Kerr	Te Nui Coleambally	Email	2
S077	RJ & RM Fletcher	Farm 541 Coleambally	Fax	1
S078	Robert Adams	Tocumwal	Fax	1
S079	Allan Letheby	Wakool	Fax	1
S080	Claudine Menegazzo	Galore	Email	2
S081	Jonathan Redfearn	"Royal Park" Moulamein	Mail	1
S082	PR & SM Redfearn	"Royal Park" Moulamein	Mail	2
S083	Richard Joyce	"Ooronong" Moulamein	Mail	1
S084	Chris Mertz	"Pine Lodge" Moulamein	Mail	1
S085	G & J Menzies	Farm 1996 Willbriggie	Mail	1
S086	M & K Hawkins	"Momala" Berrigan	Mail	1
S087	John Arthur	"Widdirin" Barham	Mail	1
S088	Michael Brooks	"Scotsburn" Mallan	Mail	1
S089	Bary Gay	"Bannockburn" Moulamein	Mail	1
S090	David Brain	Farm 180 Coleambally	Mail	1
S091	RJ & KD Redfearn	"Dhuragoon" Moulamein	Mail	1
S092	Debbie Arthur	"Spring Ridge" Moulamein	Mail	1
S093	PL & MH Menhennitt	"Coombe Park" Tocumwal	Fax	1
S094	Paul Gary	"Kildara" Moulamein	Mail	1
S095	Gillian Kirkup	Farm 1690 Gogeldrie	Mail	2
S096	Garry Seamer	"Ashens" Berrigan	Mail	1
S097	G & J Andrezza	Farm 1074 Willbriggie	Mail	1
S098	W & G Morton	Farm 177 Coleambally	Mail	1
S099	Ray Healey	"Erindale" Finley	Mail	1
S100	Barry Kirkup	Farm 1690 Gogeldrie	Mail	1
S101	Michael McAliece	Farm 886 Whitton	Mail	1
S102	Chris Salafia	Farm 302 Leeton	Mail	1
S103	Name indecipherable	2 Kooba Street Leeton	Mail	1
S104	Pat Napoli	Farm 742 Leeton	Mail	1
S105	John Houghton	Farm 1687 Leeton	Mail	1

Ref:	From:	Organisation:	Via:	Pages:
S106	Craig Bate	"Nullawil" Stanbridge	Mail	1
S107	RJ & CA O'Callaghan	PO Box 29 Whitton	Mail	1
S108	G & M Knagge	Farm 1706 Gogeldrie	Mail	1
S109	B Dunn	Farm 1438 Murrami	Mail	1
S110	Mary Napoli	Farm 742 Leeton	Mail	1
S111	R. Baulch	PO Box 674 Leeton	Mail	2
S112	J.I. Maskus	Farm 1705 Whitton	Mail	3
S113	K & J Geltch	Farm 1853 Gogeldrie	Mail	1
S114	Judi McAliece	Farm 886 Whitton	Mail	2
S115	Robert Houghton	"Ravonsbourne" Whitton	Mail	2
S116	Greg Parr	377 Church St Hay	Mail	1
S117	GS & MT Farrell	"Wandana" Tocumwal	Fax	1
S118	Cath Patten	Ricegrowers Assoc of Aust	Fax	1
S119	Lyn Gordon	Ricegrowers Assoc of Aust	Fax	1
S120	RH & LJ Chalmers	"Riversleigh" Barham	Fax	1
S121	Wakool Shire Council	Moulamein	Fax	2
S122	Steve Dufty	Dufty Farms Leeton	Fax	1
S123	Edgar Pickles	"Cadell" Barham	Fax	1
S124	AJ & MA Wilson	Farm 99 Coleambally	Fax	1
S125	Anne Leonard	"Dranoel" Coleambally	Fax	2
S126	Wakool Shire Council	Moulamein	Fax	2
S127	N & D Morona	"East Rostella" Deniliquin	Fax	1
S128	Rice Research Aust	"Old Coree" Jerilderie	Email	2
S129	Rawlinson & Brown	50-56 Banna Ave Griffith	Fax	1
S130	Iris Hermann	91 Acacia Ave Leeton	Fax	1
S131	K & M Burge	Farm 8 Coleambally	Fax	2
S132	Ian Polkinghorne	"Tralee" Moulamein	Fax	1
S133	Robin Crawford	"North Dale" Moulamein	Fax	1
S134	Tim Strong	Deniliquin	Fax	1
S135	Ian Payne	16B Currawong Cres Coleambally	Fax	1
S136	CD & MJ Pike Rural Tst	Farm 1697 Gogeldrie	Fax	2
S137	J H Payne	20 Falcon Rd Coleambally	Fax	1
S138	Scott Burger	BR&C Agents Swan Hill	Fax	2
S139	Alleena Burger	Ag Monitor Barham	Fax	2
S140	Mrs U.N. Rossato	Farm 196 Coleambally	Fax	1

Ref:	From:	Organisation:	Via:	Pages:
S141	Drew Harris	"Cressy" Moulamein	Fax	3
S142	GJ & N Hehir	"Lynore" Barham	Fax	1
S143	WG & LM Gray	"Burra-Burra" Finley	Fax	1
S144	Peter Glenn	"Cunninyeuk Homestead" Swan Hill	Fax	1
S145	Frank Morona	Rice grower	Fax	1
S146	Merna Payne	20 Falcon Rd Coleambally	Fax	1
S147	Ross McIntyre	"Weepowi" Coleambally	Fax	1
S148	RS & SJ Hall	"Coolabah" Swan Hill	Fax	1
S149	Wakool Shire Council	Addendum - to S126	Email	6
S150	Korekiyo Terada	Crown Organics	Email	9
S151	Terry & Heather Hogan	"Trevail Park" Coleambally	Fax	1
S152	Ian Mason	"Ridgewell" Finley	Fax	1
S153	Kevin Coster	30 Currawong Crescent Coleambally	Fax	1
S154	E. F. Coster	30 Currawong Crescent Coleambally	Fax	1
S155	Daryl Gibbs	Hay Branch - Ricegrowers Assoc	Fax	1
S156	Ken Bakiwin	"Longford" Tocumwal	Fax	1
S157	Mike Hedditch	39 Wood Road, Griffith	Email	5
S158	Toby Israel	Pratt Water Solutions - Griffith	Email	5
S159	Leeton Shire Council's	Leeton	Email	8
S160	Dr Gayle Philpotts	3/5-17 Pacific Highway, Roseville	Email	3
S161	Stephen Hogan	Farm 546 Coleambally	Email	1
S162	James I Dalton	"West Merribee" Binya	Mail	1
S163	Helen Dalton	"West Merribee" Binya	Mail	1
S164	PL, GL & SJ Lanza	Farm 70 Warrwidgee	Mail	1
S165	Norman Houghton	Farm 1687 Leeton	Mail	2
S166	CJ Malcolm	"Wainui" Leeton	Mail	1
S167	A & G Andrezza	Farm 1991 Willbriggie	Mail	1
S168	Steve Lanza	Farm 70W Warrawidgee	Mail	1
S169	Scott Gregg	Farm 228 Leeton	Mail	1
S170	Peter Draper	Willow Park Leeton	Mail	1
S171	Greg Tiffen	Farm 192 Leeton	Mail	1
S172	John McDonell	?	Mail	1
S173	W.B. Shaw	"Kineyah" Coleambally	Mail	1
S174	G & D Druitt	"Mayo" Farm 38 Coleambally	Mail	2

Ref:	From:	Organisation:	Via:	Pages:
S175	Ray Jones	Farm 42 Coleambally	Mail	2
S176	W.H. Beaumont	Farm 375 Leeton	Mail	1
S177	L J Arthur	PO Box 36 Moulamein	Mail	1
S178	Stuart Nixon	"Cooinda" Finley	Mail	1
S179	R F Arthur	PO Box 104 Moulamein	Mail	1
S180	RIVROC	Riv Regional Org of Councils	Fax	4
S181	J G Tiffen	Farm 192 Leeton	Mail	1
S182	Toronga Farming	"Noongaburra" Hay	Fax	1
S183	S F Hulme	Farm 1684 Yanco	Fax	1
S184	W J Knight	"Minapre" Caldwell	Fax	1
S185	Denis Dinicola	Griffith	Fax	1
S186	Mark Cameron	?	Fax	1
S187	W. Pinnuck	PO Box 45 Jerilderie	Fax	1
S188	Brian Manson	Farm 173 Coleambally	Fax	1
S189	Laurence Beer	"Woodbury" Deniliquin	Fax	1
S190	Steven Morona	"Athel Park" Deniliquin	Fax	1
S191	Christopher White	33 Bellbird Street Coleambally	Fax	1
S192	Peter Randall	Farm 1051 Murrumbidgee	Fax	3
S193	Brian Vial	"North Dale" Moulamein	Fax	1
S194	I & S Sutherland	Farm 216 Coleambally	Fax	1
S195	Gavin R Butler	Twynam Investments - Sydney	Fax	1
S196	Geoff Chapman	Leeton region	Fax	1
S197	Ray Stubbs	Murray Regional Organisation of Councils	Email	14
S198	Mandy Del Gigante	Industry Submission from:	Hard/soft	112
		Rice Marketing Board for State of NSW		
		SunRice (Ricegrower's Co-operative Limited)		
		Rice Growers' Association of Australia		
Other submissions were in pro forma letter format from ricegrowers supporting industry status quo				

Attachment B - Terms of reference

Attachment B - Terms of reference

TERMS OF REFERENCE

REVIEW OF THE MARKETING OF PRIMARY PRODUCTS ACT 1983 (RICE MARKETING BOARD)

The Terms of Reference for the review are as follows.

1. The Review of the *Marketing of Primary Products Act 1983* as it relates to rice marketing arrangements in New South Wales, including the constitution, operation and functions of the Board, (hereafter referred to as “the Review”), shall be conducted in accordance with the terms for legislation reviews set out in the National Competition Principles Agreement. The guiding principles of the review are that legislation should not restrict competition unless it can be demonstrated that:
 - (a) the benefits of the restriction to the community as a whole outweigh the costs; and
 - (b) the objectives of the legislation can only be achieved by restricting competition.
2. Without limiting the scope of the review, the Review shall:
 - (a) clarify the government's objectives for the Act;
 - (b) identify the nature and likely effect of any restrictions on competition;
 - (c) quantify the costs and benefits to the community as a whole of any restrictions identified;
 - (d) if the Act restricts competition, assess whether the objectives of the Act can only be achieved by restricting competition; and
 - (e) make recommendations for any reform considered necessary as a result of findings under paragraphs (b), (c) and (d).
3. Again, without limiting the scope of the review, the Review shall:
 - (a) take into account, where relevant, the matters listed in clause 1 (3) (d) – (j) under the Competition Principles Agreement;
 - (b) identify any issues of market failure which need to be, or are being addressed by, legislation;
 - (c) consider the objectives of statutory marketing with regard to regional, State, National and International dimensions, differences between State, National and International markets for Australian rice, and how best to resolve any conflicts between these dimensions;
 - (d) determine the nature of subsidies and other relevant domestic market protections maintained by other countries and analyse their impact on both the import and export markets;
 - (e) Analysis undertaken as part of 3(c) and (d) of the markets for rice grown in New South Wales and trading by the Board's agent Ricegrowers' Co- operative Ltd is to be in the strictest commercial confidence;
 - (f) to the extent that it finds the statutory arrangements impose a net public cost, recommend means by which such costs might be reduced or removed;
 - (g) to the extent that it recommends any deregulation of the existing arrangements, make such further recommendations as it considers appropriate in relation to any transitional arrangements that should apply; and

- (h) consider the merits of providing for any continuing statutory arrangements under a specific purpose Act rather than under the Marketing of Primary Products Act 1983.
- 4. The Party undertaking the Review shall consult with and take submissions from consumers, producers and other interested parties.
- 5. The Report of the Review shall be made to the NSW Minister for Primary Industries

Attachment C - Outlook for world rice trade

Attachment C - Outlook for world rice trade

Extract from (Rice Outlook – USDA Rice Baseline, 2004-2013, Economic Research Service, USDA, 2004 – web: www.ers.usda.gov/briefing/rice/2004baseline.htm)

Baseline projections for world rice trade

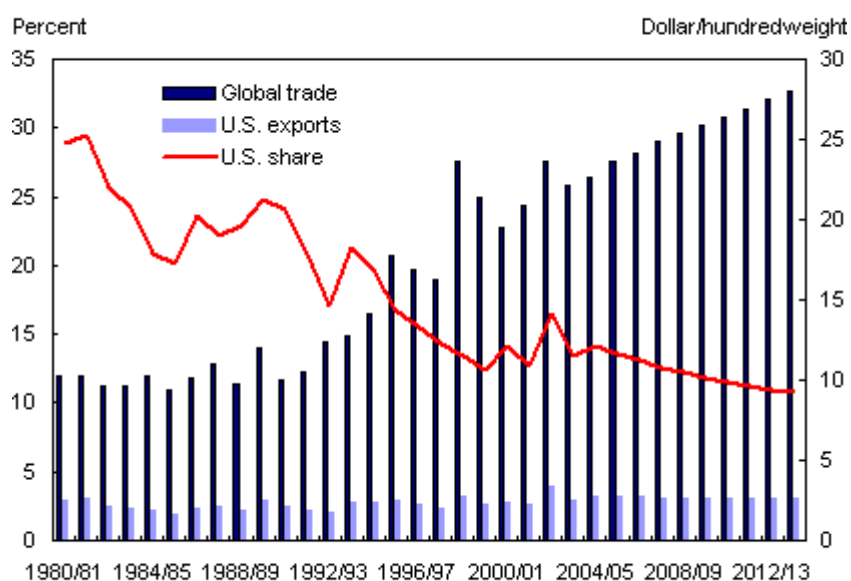
Global rice trade declined in 2003 and remains below the record 27.6 million metric tons shipped in 2002, mostly due to weaker import demand. Asia and Sub-Saharan Africa account for the bulk of the weaker import demand since 2002. Despite last year's contraction, global rice trade is projected to increase each year over the 2004-13 baseline.

International trade in rice is quite thin relative to total production. In fact, only 6-7 percent of global rice production is currently traded each year, well below the trade shares for other grains and oilseeds.

In addition, the global rice market is heavily segmented by type and quality, with little substitution among types and qualities by producers or consumers. Long grain accounts for more than 75 percent of global rice trade. Medium and short grain together make up around 12 percent; fragrant or aromatic rice accounts for around 10 percent. Specialty rices—primarily glutinous rice—account for the remainder of global rice trade.

Global rice trade to expand. Global rice trade is projected to increase 2.4 percent per year over the baseline, reaching a record 32.9 million metric tons by 2013. Increased global rice trade is the result of rising import demand caused by larger populations and, in some importing countries, limited ability to expand rice area and competition for arable land from substitute crops. Global rice consumption is projected to increase over the baseline as well, largely due to rising populations in Asia and modest increases in per capita rice consumption in many non-Asian rice-consuming countries. Most Asian countries are experiencing declining per capita rice consumption caused by diet diversification resulting from higher incomes. Global rice production is also projected to increase each year, primarily due to higher yields. Rice area is projected to increase only slightly over the baseline.

Global and U.S. rice exports

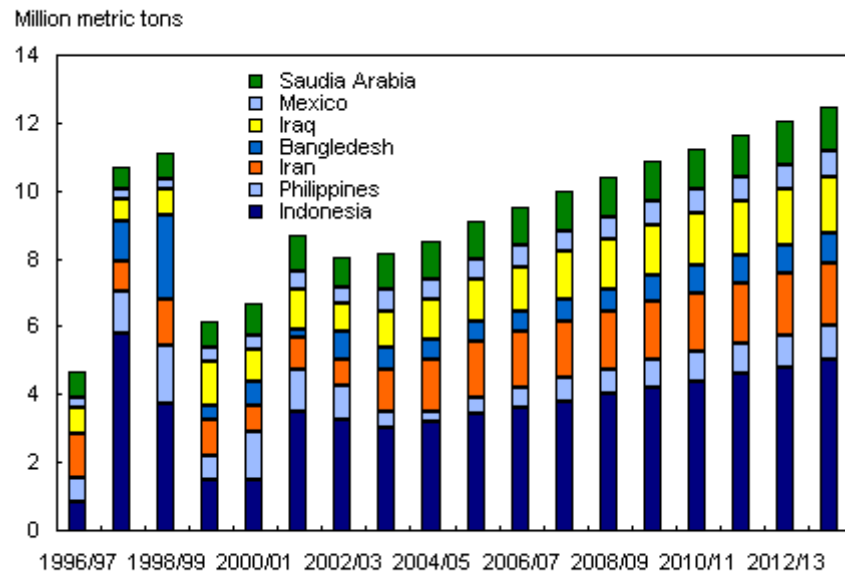


Source: *USDA Agricultural Baseline Projections to 2013*, February 2004.
Economic Research Service, USDA.

Long-grain rice is expected to account for the bulk of trade growth during 2004-13. Long-grain rice is imported by a broad spectrum of countries in South and Southeast Asia, much of the Middle East, Sub-Saharan Africa, and Latin America. Medium/short-grain rice is primarily imported by Northeast Asia—Japan, South Korea, and Taiwan—and eastern Mediterranean countries. Expansion in medium/short grain trade is projected to be much slower than for long grain.

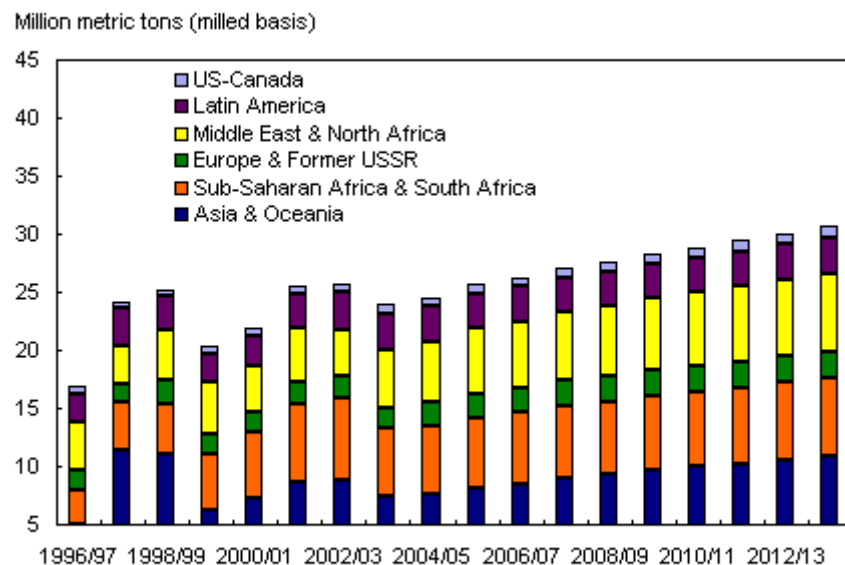
Rising food demand from Indonesia's burgeoning population is the main factor behind escalating global rice imports. Already the world's leading rice importing country, Indonesia's share of global rice imports grows from 12 to 15 percent in the baseline. Land constraints and already high crop intensity indicate little opportunity for significantly expanding production. Sub-Saharan Africa and the Middle East—major destinations for internationally traded rice—are also projected to substantially increase rice imports over the baseline. In both regions, strong demand growth driven by rapidly expanding populations and rising incomes confronts limited opportunities to expand production. Among smaller import markets, Central America and the Caribbean, Mexico, the Philippines, the United States, and Bangladesh are all expected to increase rice imports during the baseline. In contrast to these expanding markets, imports are projected to decline over the baseline for Brazil and remain nearly flat for the European Union.

Major rice importing countries



Source: *USDA Agricultural Baseline Projections to 2013*, February 2004.
Economic Research Service, USDA.

Rice importing regions

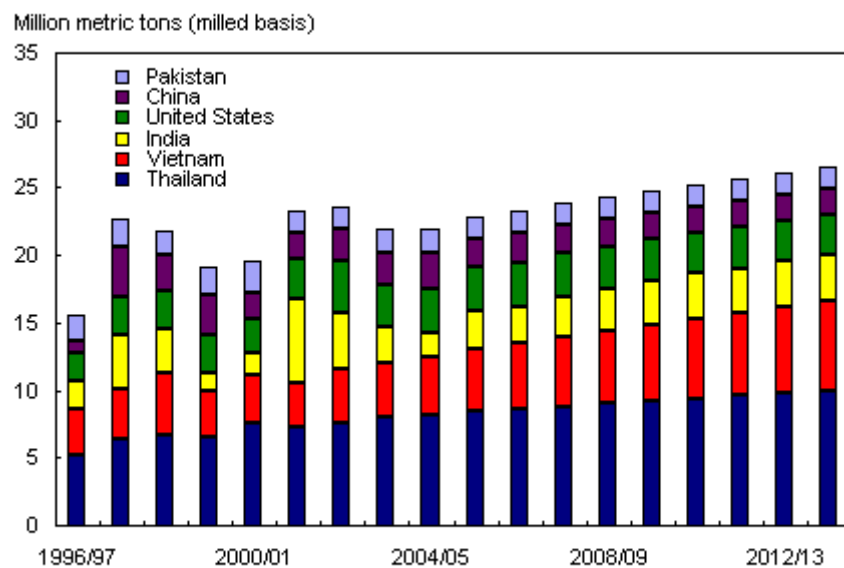


Source: *USDA Agricultural Baseline Projections to 2013*, February 2004.
Economic Research Service, USDA.

Asia accounts for the bulk of rice exports. Six countries—Thailand, Vietnam, the United States, India, China, and Pakistan—account for around 83 percent of rice exports throughout the projection period. Thailand and Vietnam, the world's largest rice-exporting countries, account for nearly half of all rice exports. Rising production—mostly due to higher yields—and declining per capita consumption account for the expansion in exports for both countries. Their share of global rice trade increases over the baseline as India, the United States, China, and Pakistan lose market share.

The United States is projected to remain the third or fourth largest rice exporting country during most of the baseline. U.S. exports initially increase and then slowly decline after 2006, as rising domestic demand exceeds production growth. In India, high internal price supports continue to encourage large production and the accumulation of stocks. India's exports are projected to be essentially flat over the baseline period. Rice exports from China—typically the world's fifth-leading exporter—decline modestly in the baseline as production shifts to higher quality, but lower yielding varieties in response to both domestic prices and policy signals. Pakistan—the sixth largest rice exporting country—has little ability to expand rice area, and production is confronting a growing water shortage. As a result, its exports are projected to be relatively flat over the baseline.

Major rice exporting countries

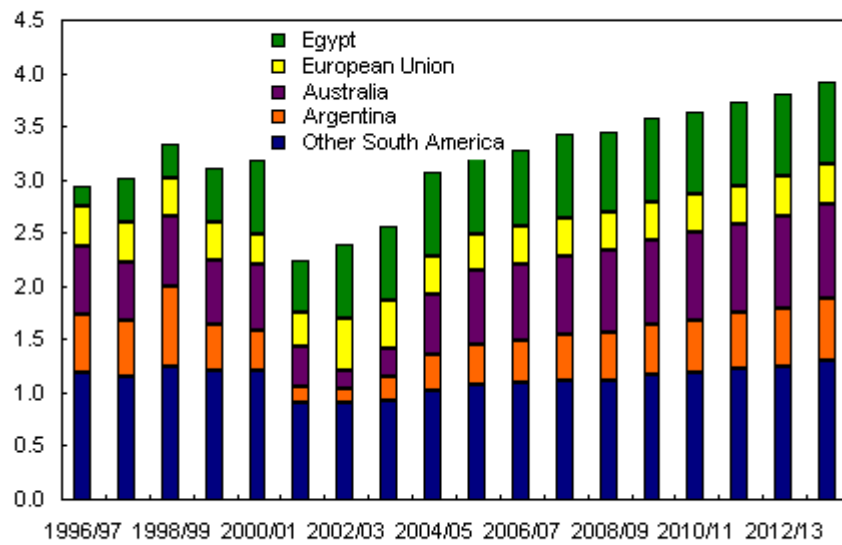


Source: *USDA Agricultural Baseline Projections to 2013*, February 2004.
Economic Research Service, USDA.

Among countries with smaller rice exports, Australia, Argentina, and other South America countries (Uruguay, Guyana, and Surinam) are expected to increase exports over the baseline. Despite steady growth in consumption, Egypt's exports are projected to remain at record or near-record levels every year of the baseline. Rice shipments from the EU are projected to remain at about the same.

Other rice exporting countries

Million metric tons (milled basis)



Source: *USDA Agricultural Baseline Projections to 2013*, February 2004.
Economic Research Service, USDA.

Attachment D - Project Team

Attachment D - Project Team

In respect of the proposed project, IMC brought together a team of leading senior consultants to complete the Rice Marketing Board Review.

The team includes:

- Chair and strategy analyst – Mike Cahill
- Micro/macro economist – Jock Kreitals
- Agribusiness analyst – Tim Evans
- Project manager – Lisa Kay

Jock Kreitals

Jock is a respected economic analyst and policy manager with 30 years experience in industry and government. During a 15 year career with the Grains Council of Australia, which he joined as a senior economist, Jock served as Deputy Director and finally Executive Director. As part of this role, he was involved in national and international industry advocacy.

As a senior economist, Jock has had high level involvement in trade, international marketing, research and development, market access and quarantine issues.

He has been a participant in national competition policy determinations as well as involvement in NCP reviews of barley and wheat marketing arrangements.

He was also a Ministerial appointee to a working party developing a framework for measuring the performance of a single desk exporter.

Jock holds tertiary qualifications in economics, econometrics, statistics and pure mathematics.

Tim Evans

Tim has a diverse business background encompassing a combination of rural, banking, corporate finance and marketing experience.

Tim's capability is founded on more than 20 years professional experience in corporate finance and advisory services, dealing with the private and public sectors, statutory organisations and Government.

Tim has formal agricultural qualifications as well as a Business Degree (with majors in Accounting and Finance) and a Master of Commerce (also majoring in Finance). He has completed formal dispute resolution and negotiating training and is an accredited tender evaluator.

Most relevant is the work Tim undertook for the Wool Working Party appointed by the Federal Minister for Agriculture Warren Truss to oversee WoolPoll 2000 where he headed a team that generated the economic models and business cases for the various levy options to be put to woolgrowers.

Tim also undertook a series of industry reviews - focussing on production, processing and manufacturing; transportation and storage; and competition - in the Australian and New Zealand dairy industries, the grains industry, the sugar and the meat processing industry.

Lisa Kay

Lisa Kay has been active on a day-to-day basis in major agricultural markets for more than 20 years.

For the past decade, she has worked as a senior project coordinator on many major programs with IMC and other agribusiness players.

Lisa's project management and people skills will add greatly to facilitating this proposed review. Specifically, she has a significant depth of industrial, cultural and life experience particularly in the MIA irrigation field.

Her most recent projects with IMC include the project management and coordination of the Extension Service Review for the then NSW Department of Agriculture in late 2003 and both the national 2000 and the 2003 WoolPoll programs.

Mike Cahill AFAMI / MPRIA

Mike Cahill is managing director of Sydney-based company IMC – Integrated Marketing Communications Pty Ltd and he chaired the Review Team.

He has a long and successful track record in strategic issues management counsel and issues management programs in the agribusiness, resource development and environmental management sectors.

Mike is a respected leader delivering analysis and lateral solutions to challenges in national and export market initiatives in the public and private sectors.

Key market segments serviced by IMC include:

- Industry-to-industry
- Government-to-industry
- Export market development
- Natural resource management

During the second half of 2003, Mike led an IMC team which successfully completed a special review of the Extension Service of the then NSW Department of Agriculture and delivered WoolPoll 2003, a national strategic program for Australian Wool Innovation Limited. (Refer www.woolpoll2003.com.au)

IMC – Integrated Marketing Communications Pty Ltd (ABN 71 107 371 675)

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