

INQUIRY INTO ASPECTS OF AGRICULTURE IN NSW

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RICEGROWERS' ASSOCIATION
OF AUSTRALIA INC

Submission to

NSW Legislative Council
Standing Committee on State
Development

Inquiry into Aspects of
Agriculture in NSW

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1. Introduction

The Ricegrowers' Association of Australia Inc (RGA) welcomes the opportunity to make a submission to the Standing Committee on State Development Inquiry into Aspects of Agriculture in NSW (the Inquiry).

The Inquiry seeks to ascertain the contribution agriculture makes to the NSW economy, impediments to sustaining appropriate levels of growers and initiatives to address those impediments.

The Australian rice industry (the Industry) is largely located within the state of New South Wales (NSW), with smaller amounts of rice grown commercially in northern Victoria. In normal years, around 80% of the rice produced is exported to around 60 countries world wide.

Consequently, the Industry contributes significantly to the economic wellbeing of the Riverina, NSW and Australia. There are and will continue to be impediments to the continued growth of the Industry and this submission suggests some initiatives to address these impediments.

2. The Australian Rice Industry

The Australian rice industry encompasses the Murray Valley of NSW and Victoria and the Murrumbidgee Valley of NSW (see Figure 1 below). Across this region around 100,000 hectares of rice are typically sown in October of each year, producing an average of 1 million paddy tonnes. The industry has a farm gate value of around \$350 million and total value (domestic and export earnings, plus value-added) of over \$800 million. Including flow-on effects, it is estimated that the industry:

1. Generates over \$4 billion annually to regional communities and the Australian economy;
2. Has direct industry employment of 7000; and
3. Contributes 21% of total regional income and employment.



Figure 1 Location of Australian Rice Industry

Rice growers have individually invested over \$2.5 billion in land, water, plant and equipment. Collectively, growers have also invested around \$400 million in mill and storage infrastructure through the Ricegrowers' Limited (trading as SunRice) and formerly the Rice Marketing Board of NSW. The industry is the backbone for our regional communities generating around 20% of total regional income and 18% of total regional employment.

The rice industry has also invested significantly in environmental improvement and impact reduction as part of its efforts towards better natural resource management and environmental stewardship.

3. Ricegrowers Association of Australia

The Ricegrowers' Association of Australia Inc (RGA) is the collective voice of rice growers' in Australia. RGA represents over 1100 voluntary members in NSW and Victoria on a wide range of issues.

As much of the Riverina region has been built upon rice, and rice is still the mainstay of many towns today, it is important that RGA members have strong and effective representation. RGA fulfils this role by representing and leading growers on issues affecting the viability of their businesses and communities.

4. SunRice

SunRice is the international brand and identity of Ricegrowers' Limited, a 54-year-old company (previously Australia's most successful co-operative) wholly owned by approximately 2,000 Australian rice growers. SunRice sources its raw material, paddy, from rice farmers for processing and marketing globally under the SunRice and subsidiary brands.

SunRice has a strong tradition of aggressive growth and value creation. In a typical year, the company is Australia's largest exporter of processed branded-food products. As a vertically integrated agribusiness, SunRice mills and markets an extensive range of table rice and value-added rice food products to more than 60 countries worldwide. The SunRice brands and operations are recognisable around the world, particularly in the markets of North Asia, the Pacific, the Middle East, New Zealand and Australia.

With annual sales of approximately \$800 million, SunRice is a major contributor to Australia's export revenue and, after a strategic move to a multi-food brand platform, SunRice is on track to realise its' vision of being *the world's favourite rice food company*.

5. Australia's Rice Production

Rice is generally divided into two categories. The *indica* types (long grain) adapted to tropical climates and the *japonica* types (short and medium grain) adapted to more temperate climates. The Australian rice industry produces primarily *japonica* types although some *indica* characteristics have been introduced through the Department of Primary Industries rice breeding program.

Japonica rice is a “niche” commodity that is principally grown in the microclimates of Japan, Australia, California, China and Egypt. Smaller amounts are grown in the European countries of Italy, Spain and Portugal. The major exporters of *japonica* rice are California, Australia and Egypt with Japan and more recently China closed to the export of rice.

The Industry was founded by Isaburo (Jo) Takasuka who grew the first successful rice crop at Swan Hill in 1906/07 from japonica rice seed imported from Japan. Mr Takasuka then provided rice to the Yanco Agricultural Institute for research. NSW Government representative’s imported varieties from California that enabled commercial production to begin in the Yanco area in 1925/26. Industry production has grown steadily since that time (see Figure 2), however has been markedly affected since 2001 by drought.

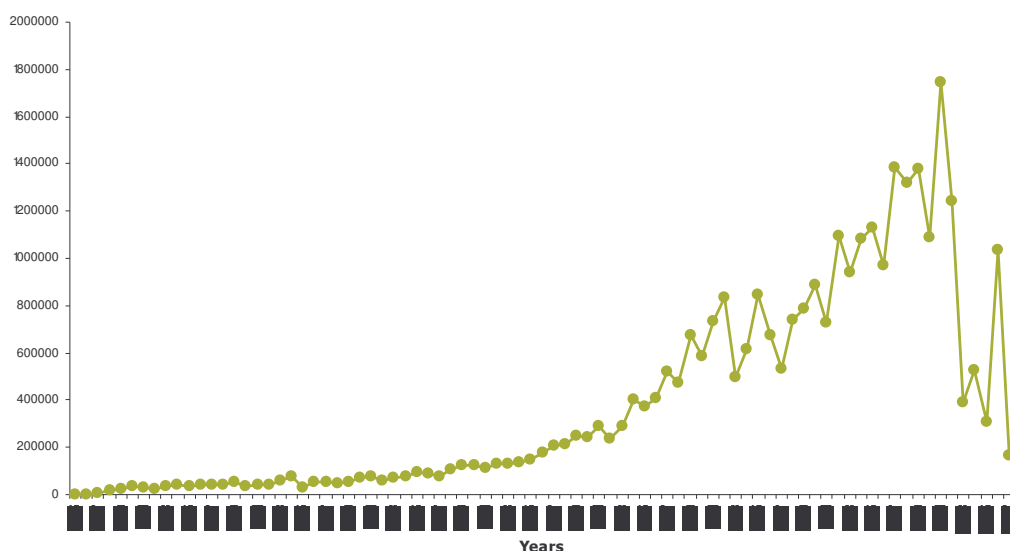


Figure 2 Australian Rice Production 1925-2007

In conjunction with the increase in production, the Industry has become a world leader in improved yields (Figure 3). This is undoubtedly a result of the significant investment in research and development with a recent review noting the enormous success of the program in delivering back to growers¹.

Australia is the only country in the world to attain an average yield of 10 t/ha² while average world production remains at 3.9 t/ha. UNCTAD has stated that Australia is the most efficient producer of rice in the world.

Australia’s rice crop has the lowest water use in the world at 12 ML/ha despite some of the media and other commentary to the contrary. World average is 15-20 ML/ha with some countries using upward of 50 ML/ha. The achievements in terms of water use efficiency (Figure 4) are a direct result of improved varietal yields, the introduction of shorter season varieties and improved crop management that has resulted in less water used.

¹ Review of RIRDC Rice R&D Program

² As determined by the International Rice Research Institute in the Philippines

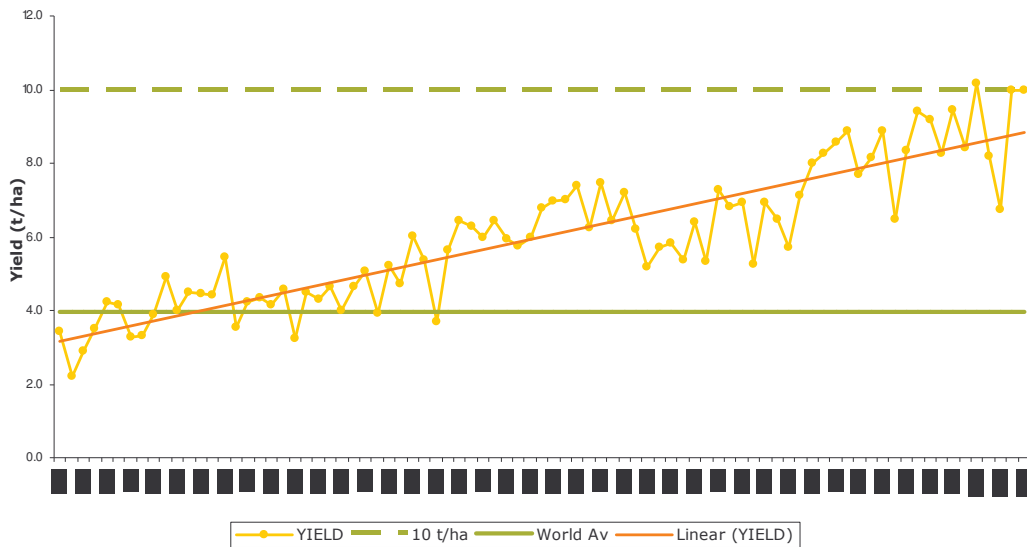


Figure 3 Rice Yields

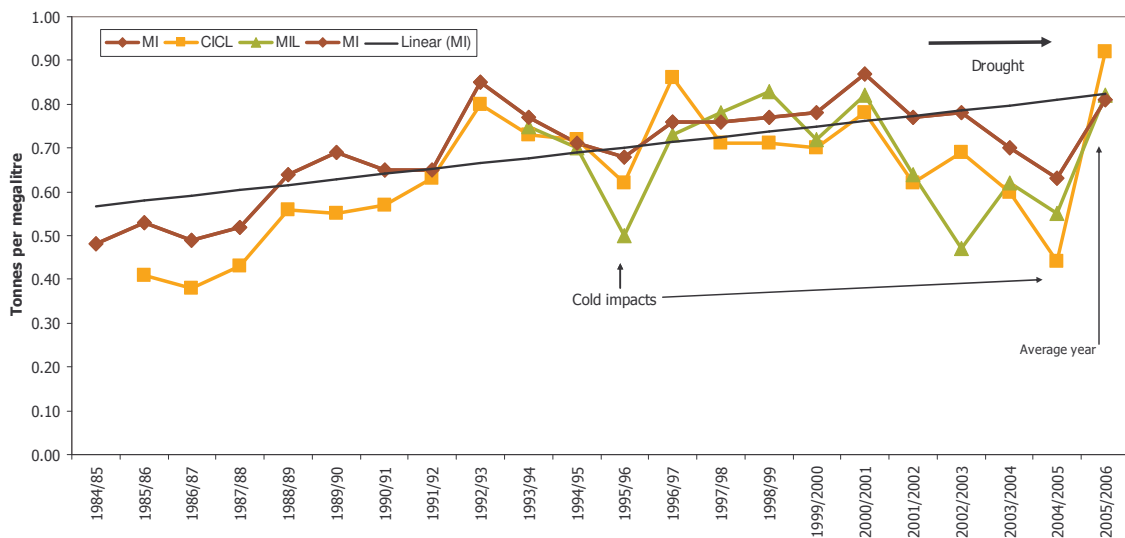


Figure 4 Improvements in water use efficiency 1984-2006

Other achievements are that rice production in Australia is relatively free of diseases and pests, has low chemical use, has established industry standards governing which soils rice is grown on and limitations on water applied to the crop.

The Industry has demonstrated Australian agricultural leadership by developing an Environmental Champions Program (beyond EMS) and is the first agricultural industry to:

1. Develop a Biodiversity Strategy and Plan;
2. Sign onto to the Greenhouse Challenge and Greenhouse Challenge Plus;
3. Establish used oil recycling facilities; and
4. Develop an on farm water efficiency recovery program for The Living Murray Initiative.

In terms of marketing of the rice crop, the Industry has gone from commodity trading (i.e. growers selling paddy rice for the best price of the day to millers) to

taking control and implementing a vertically integrated industry delivering high returns to growers. The value and strength of the vertical integration of the industry can be demonstrated by the following graph which depicts the return of retail price to farmers.

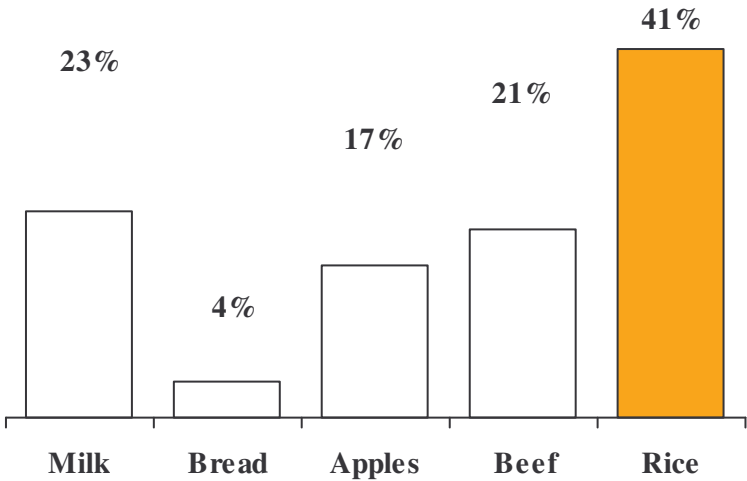


Figure 5 % retail price returned to primary producers, 2001

In latter years, SunRice has concentrated on developing innovative packaging (e.g. pour & store) and products (i.e. retort shelf stable ready to eat foods) for the domestic market. From an export perspective, the company sells milled, branded rice products into both high and low value markets with high quality products being sold into Japan, Taiwan, Korea and the Middle East. The SunRice and its subsidiary brands are highly valued and are the most easily recognised Australian brands in markets such as the Middle East.

6. World Rice Production

Rice is the world’s most important basic food staple with world rice production approximately 618 million tonnes in 2004. In that same year however, only 29 million tonnes or 5% of the volume produced was traded globally as most rice is consumed within the country of origin. Of this trade, approximately 75% is long grain and about 12% is medium grain trade – of the latter, Australia is a major player, with approximately 23% of trade.

In more recent years, there has been a decline in world rice stocks (Figure 6). The reasons for this decline include drought such as that experienced in Australia and China, pressures on agricultural land in developing countries, low fertile soil used in rice production, dietary changes in Asian countries to more western diets and increasing demands on feeding populations (such as China). The declining world stocks has lead to more competition, particularly for limited medium grain rice, and consequently a positive outlook for returns to growers. Although a continuing high Australian dollar against the US dollar will temper this.

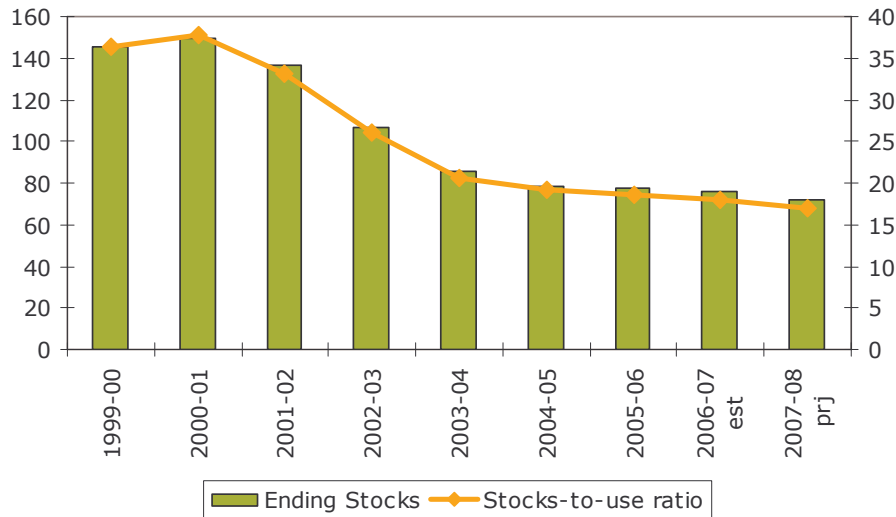


Figure 6 World Rice Ending Stock 1999-2008

Due to its importance to food security, many countries classify rice as “sensitive”. Despite the gains under the WTO Uruguay Round, rice continues to be the highest protected commodity in the world (Figure 7) with tariff rates peaking at 778% for the Japanese market, and the highest payments per farm for domestic support in the USA.

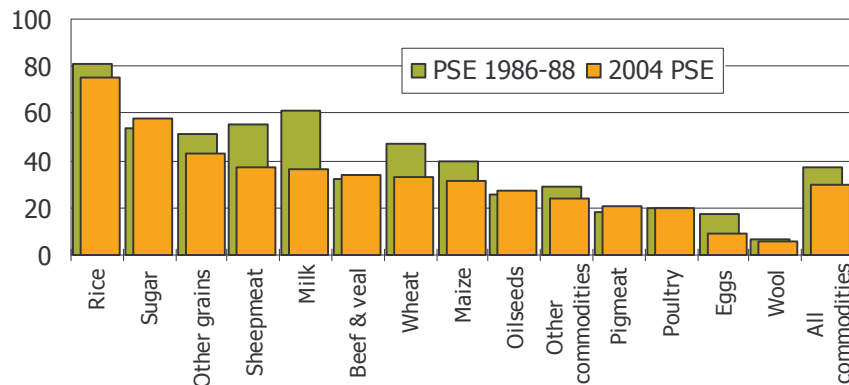


Figure 7 OECD Primary Producer Support Estimates for selected agricultural commodities³

The Industry receives no government production, export or pricing support. The Industry must therefore be lowest cost to survive in the most distorted global market for any commodity. This is able to be undertaken through the WTO notified State Trading Enterprise which is underpinned by the NSW Government legislation under the Marketing of Primary Products Act.

This Act provides for the Rice Marketing Board to issue one export licence, which is issued to SunRice. These arrangements allow for the Industry to market rice globally to maximise the benefits and efficiencies of economies of scale. In a 2004 review of these arrangements, 99.9% of growers supported continuation of these arrangements. An outcome of the review was the introduction of multiple buyers of rice for the domestic market only.

³ OECD, PSE/CSE database 2005, rates are average most favoured nation applied rates used in Uruguay Round

In short, the Industry is an immensely innovative industry that provides significant local, regional, state and national benefit with little assistance from Governments. The Industry has shown unparalleled leadership in the fields of R&D, production, environmental stewardship, on farm water efficiency investment & projects, and milling & marketing. Government support is provided in terms of NSW based legislation (as mentioned above) and Federal Government contributing funds to R&D and more recently Federal and State Government Exceptional Circumstances support.

7. Value of industry to NSW

The Industry is anchored in regional NSW – production, processing and packaging are all located in the Murray and Murrumbidgee Valleys, with a large proportion of the research & development also located in the region. The Industry is a significant employer and underpins the regional economy of Deniliquin and Coleambally and to a lesser degree Leeton.

Rice growers have invested some \$3.5 billion in farms, equipment and water and the Industry has invested significantly in mills and storage infrastructure. Over the past few years, the Industry has streamlined its facilities and now operates with three mills located at Leeton, Coleambally and Deniliquin. There are numerous storages located throughout the rice growing region, capable of storing some 1.3 million tonnes of rice, mostly aerated storage.

The Industry has a farm gate value of \$350 million, and a total value (including value added export earnings) of over \$800 million. Including flow ons, the Industry generates over \$4 billion per annum (pre-drought) to regional communities and the Australian economy.

A 2004 review of the “vesting” of the rice industry established that there was a net \$64.5 million net public benefit to the Australian economy from the then marketing arrangements. This was mainly derived from scale, freight negotiation benefit, export premium and freight advantage.

The Industry, both farm and processing, is a significant employer across the Murray and Murrumbidgee Valleys. Direct Industry employment is 7,000 or 21% of regional employment and approximately 33,000 employed in the supply chain.

The Industry, through the RIRDC Rice R&D program, has invested some \$18 million over 10 years (pre-drought). A large amount of this investment has been undertaken at the Yanco Agricultural Institute with NSW Department of Primary Industries rice breeders. An independent review⁴ of the 157 projects found:

- An average net benefit to investment ratio of 40:
- An average internal rate of return of 100%; and
- That a total investment of \$11 million had returned an estimated triple bottom line benefit of \$292 million – of which 59% was estimated to

⁴ 2006 RIRDC Reaping the Rewards of Innovation – RIRDCs Rice R&D Program, Publication Number 06/017

be a direct return to rice growers and 49% representing shared benefits flowing as social and environmental benefits of rice production.

The Industry has also significantly invested in the environment through Land & Water Management Plans and the Industry's flagship Environmental Champions Program. The latter has received nearly \$2.8 million in funding:

- \$2.22 m from the Federal Department of Agriculture, Fisheries & Forestry;
- \$0.3 m from the MDBC for the Biodiversity Flagship Program;
- \$0.1 million from the Australian Greenhouse Program for the Greenhouse Flagship program; and
- \$0.17 million from the Department of Environment & Water for the establishment of waste oil collection facilities.

8. Impediments to Growth and Solutions

For the Industry, there are a number of impediments to sustaining appropriate levels of productive capacity and growth. The areas most relevant to this Inquiry are:

- Drought – farm business, workforce and R&D funding;
- Water reforms – stability and the ability to service the irrigation development needs of irrigators;
- Attracting skilled workforce;
- Calls to prohibit rice production; and
- Government red tape.

Drought

Drought has significantly affected the rice industry since 2001 (see Figure 8). The following figure shows this in more graphically, however it should be noted that the Murray Valley has been more severely affected than the Murrumbidgee Valley.

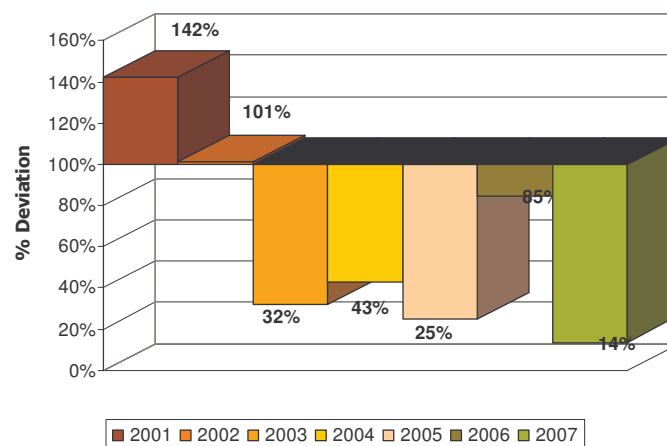


Figure 8 Deviation from Pre-drought Average Rice Production

The length and depth of the current drought is continuing to affect the ability of farmers to profitably operate their business, and there are also concurrent physical and mental health issues of grave concern. However, the longer the

drought continues, the less resilience farm businesses will have to recover. Indeed, it should be expected that the recovery from the current drought will take several years.

During recent weeks, it has become apparent that financiers are also concerned and anecdotally, there are pressures for farmers to sell part of their water entitlements. This will have ramifications for drought recovery and the ability for the farm business to remain profitable into the future.

A further concern of drought for the rice industry is the contraction of undoubtedly the most successful research and development program (see attached RIRDC Rice: reaping the rewards of innovation report). As grower levy contributions have dwindled, so to have the contributions of the Federal Government as the latter is based on a three year rolling average of grower contributions.

Even when there is a return to more normal production, it will take some time for the Federal contributions to return to normal due to the three year rolling average of grower contributions. Efforts to date to resolve this issue have been unsuccessful.

The repercussions for the NSW Government are major, as a large portion of available research funds are directed to the Department of Primary Industries Rice Breeding Programs. There is deferral of proposed research programs and a contraction of current programs. This has implications for the resources used by the Department – including infrastructure, plant & equipment and importantly staff. There is now a real risk of the Industry losing critically important researchers.

To resolve this issue, a method of overcoming the deficiencies in the design of the current funding of R&D programs is warranted. Funding by Governments during drought should be kept at pre-drought levels to avoid the situation now occurring in the rice R&D program. It is the best interests of both the Industry and the NSW Government to seek a viable and equitable solution.

The remaining issue arising from drought that will affect the future of the industry is the migration of human resources away from the regions to seek employment in other regions and industry sectors. This migration has been from the farm as well as the processing sector of the industry (due to contraction of milling facilities during the drought). A return to normal production will inevitably see a deficit of employees at the farm level and processing level.

Likewise, similar situations will occur in other flow on industries such as the transport sector.

Water Reforms

The Industry, as part of the irrigation sector, has been undergoing water reforms since 2004. This includes the COAG Water reforms, MDBC Cap, Snowy Water

Inquiry Outcomes, Water Management Act 2000, The Living Murray, National Water Initiative 2004 and most recently the National Plan for Water Security.

While these processes have and are delivering the outcomes sought by irrigators (i.e. property rights), the community (improved environmental outcomes and Governments (improved economic outcomes for the State and nation), irrigators require some period of stability. This is required to allow farm businesses to adjust to the current climate, to improve their business profitability and to re-establish some of the trust with Governments. This is especially required given the severity of the current drought.

There are now many opportunities for irrigators to access funds to implement world's best practice irrigation, such as on farm water infrastructure and irrigation technologies. Development takes time and one limitation will be the accessing the services of appropriately skilled irrigation surveyors, designers, earth moving contractors and so on. Additionally, the ability to service the needs of the infrastructure, such as pipes, computers, electrical fittings, will be equally important. The ability to service the needs of irrigators in implementing on farm works, particularly within some short timeframes, will be limiting factors on the ability for irrigators to take up these opportunities.

Skilled Workforce

As mentioned previously, the loss of skilled workforce to other regions and employment sectors during the drought has been unavoidable and regrettable. A further issue however, is the ability to attract skilled staff to regional areas. The rice industry is not the only affected industry. There are currently shortages of dentists, doctors and teachers just to name a couple of examples.

Of particular concern to a large business like SunRice, is the ability to attract high quality professional staff to regional areas. Some of the issues include the remote location to the metropolitan area, the availability of services (health, education, sporting facilities etc) in the regional location and housing.

Whilst there has been much effort expended on the development of areas east of the Great Dividing Range, there must be a focus on development of appropriate services and conditions in regional NSW that will not only encourage the re-location of skilled tradespeople and professionals but attract them to regional areas as a preferential working and residing environment.

Calls to Prohibit Rice Production

Industry particularly notes that perceptions of community aspirations sometimes drive higher and higher expectations with regard to water and environmental management. In many cases, these perceptions are driven by misconceptions. Nevertheless, the end results are media and community calls to ban rice production. A lot of these misconceptions are driven by an increasing lack of connection between rural and urban residents and agriculture.

The Industry believes that there are sufficient rules in place regarding water entitlements and their use and the application of water. Providing each rice

grower is using this water in accordance with their licence conditions, it should not be the role of Governments to pick winners and losers as to what farmers can produce on their land with the water available to them.

Farmers are best placed to make decisions on what they produce on their farms. Such decisions are based on the physical attributes of the farm, parameters of licence and other conditions, financial situation of the farm business, markets for various commodities and so on.

The Industry notes that the Local Environmental Plan (LEP) pro-forma includes a clause that will allow a local Government to ban rice production. Rice is not produced all over NSW, but is confined largely to the mid Murray and Murrumbidgee Valleys. Hence the Industry is concerned as to why one particular commodity has been targeted.

A clause relating to intensive livestock industries may be understandable due to public health and livestock health concerns. However, the rice industry has quite stringent controls over where rice can be grown now and this also affects the intensity of rice production in the landscape as well and the amount of water that can be applied. It is the only industry in Australia to do so. This policy was developed by the Industry including members of the NSW Departments of Water & Energy, Primary Industries and EPA as well as CSIRO and the Irrigation Corporations.

It is therefore unnecessary that a clause to ban rice production is included in the LEP pro-forma.

Government Red Tape

The RGA are concerned about the impact of red tape on the agricultural sector, and in particular our members. Rather than repeat efforts undertaken as part of the Productivity Commission Red Tape Review for Agriculture, the RGA attaches the NFF submission which in summary:

- Regulatory compliance has become a significant cost impost on farm businesses – the majority of which are small farm family businesses;
- Not all regulations are bad, but a more flexible common sense approach is needed to build trust (as there is a lot of regulation and the way it is implemented is eroding trust); and
- The main areas of regulatory burden in the Federal jurisdiction are for the farm sector are transport, environment, livestock traceability, food safety, taxation, security sensitive chemicals, barriers to adjusting business structure, drought support access, pension, and workplace relations, occupational health & safety.

The Holmes Sackett Report attached to the NFF Submission, outlines the following cost burden of red tape from 1998-2006:

- \$22,542 annual expenses relating to red tape;
- Of this, \$19,412 was overhead, and \$3,130 was wage expenses;

- Approximately 18 days or 7.5% of the working year taken up on tasks associated with red tape;
- The total expense of \$22,542 relates to 3% of income, 4% of total expenses and 14% of net farm profit;
- The total cost is higher on mixed farms than grazing; and
- The total cost has risen over the last four years.

The important point in the above is that red tape is having a real impact of family farms, many of which are classified as small businesses. Significantly, farm profit is a hard won end point, particularly in drought. To lose 14% of this to red tape is most egregious.

There are a number of areas of red tape, but it is possible to consider a more streamlined flexible approach to reduce the burden on family farms. Attached to this submission is the RGA's attempt at simplifying and streamlining the "red tape" regarding on farm chemical storages.

Within the NSW legislative and regulatory jurisdiction, two major areas that could be investigated are environmental and occupational health and safety. Anecdotally, environmental legislation in Australia is increasing by 10% each year and in NSW alone, there are nearly 200 pieces of legislation and regulation affecting water management. Any effort that identifies options to streamline and simplify the regulatory burden on the many small businesses that are agricultural businesses would be a major improvement to the burden of farm managers.

9. Conclusion

This Inquiry provides a timely opportunity to review the contribution of agriculture to the NSW economy. Despite the ongoing drought, there are opportunities for the sector to mainly and improve its sustainability. If allowed, agriculture is efficiency and given the right commercial conditions profitable. Irrigated agriculture is the most profitable sector of agriculture but requires a period of stability in order to recover from sustained water reform and drought.

Improvements in conditions that will maintain and enhance a skilled and professional workforce and reduce the regulatory burden on farm businesses will assist in maintaining and enhancing the profitability and sustainability of the sector.