



4 December 2020

SunRice Group

Submission to the proposed Australia-United Kingdom Free Trade Agreement

Delivered to:

Australia-UK FTA Coordinator
Regional Trade Agreements Division
Department of Foreign Affairs and Trade
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1. Executive summary

The SunRice Group and the Australian rice industry congratulate both the Australian and United Kingdom Governments for pursuing such an ambitious and quick Free Trade Agreement (FTA), which has the potential to build on the longstanding relationship of our two countries and deliver significant social and economic benefits, particularly as we continue to manage the impacts of the global COVID-19 pandemic.

The proposed FTA ('AU-UK FTA') represents one of the most significant market access opportunities for the Australian rice industry in many years. Access to the UK market is extremely restricted for Australian milled rice products because of the European Union's application of Tariff Rate Quotas (TRQ), and the prohibitively high tariffs on imported volumes above TRQ levels. However, with the UK's exit from the European Union, we believe the proposed AU-UK FTA represents an opportunity to significantly increase exports of high-value Australian rice products to customers and consumers in the United Kingdom, particularly in the retail and food service markets.

We set out in more detail below why we believe removal of all tariff and quota arrangements for the import of Australian rice products into the United Kingdom should be delivered through this FTA negotiation, and how this would deliver mutual benefits to both the Australian rice industry and customers and consumers in the United Kingdom.

2. About SunRice and the Australian rice industry

The SunRice Group is celebrating its 70th anniversary in 2020. Formed in 1950 when a group of rice growers pooled their resources in the Riverina region of NSW to build a single mill, we are now a major Australian branded food business and one of the world's largest rice food companies.

Now listed on the Australian Securities Exchange, we have built a company that sells high-value branded products into approximately 50 markets worldwide, with approximately 2000 employees and operations in 9 countries. We have diversified supply chains around the world, including rice processing mills in Vietnam and California, and source rice from 12 different countries including Australia. The SunRice Group has more than 1100 products and 30 major brands, and importantly manufactures and sells value-added branded products as opposed to being a trader of rice as a bulk commodity.

Within Australia, approximately 98% of rice is produced in the Riverina region of the State of New South Wales (NSW), with SunRice the sole company with the right to export this NSW-grown rice into global markets. As such, SunRice is effectively the only company trading Australian branded rice products globally.

SunRice and the Australian Riverina rice industry produces on average between 500,000 to 650,000 paddy tonnes per annum, of predominantly Japonica short and medium grain varieties¹. These varieties have been developed over decades of dedicated research & development between SunRice, growers, university and Government partners, and in some cases are unique to Australia. Australian rice yields are some of the highest in the world, and rice produced in Australia is 50% more water efficient than the global average². The rice produced in the Riverina is processed in SunRice's facilities to a range of value-added branded products for end markets, including shelf-stable core rice products, microwaveable cups and pouches, and a range of snacks. Given the relatively small volumes produced, and high quality and reputation of Australian-grown rice, these products are traded as high-value premium products, as opposed to in bulk, and sold predominantly to customers for retail and food service channels in end markets.

There continues to be a unique linkage in the Australian rice industry between our Riverina-based rice growers and the SunRice Group, whereby the Group is listed on the ASX with a dual-class share structure. This share structure includes A Class and B Class Shares – A Class Shares can only be held by active rice growers, and B Class Shares are able to be traded on the ASX. A Class Shareholders have the right to control the election of Board Directors for the company and any changes to the Group's Constitution³.

¹ SunRice Group 2019 Information Memorandum (<https://corporate.sunrice.com.au/media/683706/sunrice-asx-information-memorandum.pdf>)

² SunRice Group website 2020 (<https://www.sunrice.com.au/water-efficiency/>)

³ SunRice Group 2020 Annual Report (https://investors.sunrice.com.au/FormBuilder/_Resource/_module/2weQNICYSUy13FE_jxQXvg/file/annual-reports/Annual_Report_2020.pdf)

The SunRice Group holds a leading market position in a number of the approximately 50 markets it sells products to. For example, it is the leading rice brand in Australia and New Zealand grocery and Australian food service channels, as well as Papua New Guinea and the Solomon Islands and 10 other Pacific markets, and the leading medium grain rice brand in the Middle East⁴. The Group's microwave rice and rice cakes brands also hold leading market positions in Australian retail⁵.

The SunRice Group is renowned for its stringent biosecurity and food safety systems, and is regarded as a supplier of premium quality, clean, safe and environmentally sustainable food and fibre. As a member of the United Nations Global Compact Network Australia, SunRice is guided by the 10 principles of the UN Global Compact and activities under our SunRice Sustainability Charter contribute to eight of the UN's Sustainable Development Goals⁶.

The Australian rice retail market, within which SunRice holds a leading market position, is completely open with all imports free from tariffs or quotas. The Australian rice agricultural industry is unique in that, unlike many other countries with which we compete globally, there are minimal subsidies provided to our farmers.

3. World rice markets and the Australian rice industry's position in those markets

Globally approximately 480 million tonnes of milled rice is produced per annum, with China and India alone accounting for more than 50% of rice grown⁷. Indica rice varieties (long grain) account for 80% of production and Japonica rice varieties (largely short and medium grain) account for 20% of production⁸.

Despite the significant volumes grown and consumed, less than 10% of the milled rice produced globally is traded. With respect to Japonica varieties, approximately 6% (or 3.2 million tonnes) is traded⁹. As above, the rice grown in the Riverina region of Australia is predominantly Japonica. While globally Australia's exports are an extremely small proportion of total rice traded or consumed, in some years the SunRice Group can account for approximately 10% of the global trade in Japonica¹⁰.

4. About the United Kingdom retail rice market

At a value of approximately \$356 million USD per annum, the United Kingdom is the second-largest retail rice market by value in Western Europe, with France the largest, and Italy, Spain and Germany rounding out the top five¹¹. Unlike Spain and Italy, and to a lesser extent Greece, within the European Union – the United Kingdom does not have a domestic rice industry – meaning all of the rice consumed is imported.

The vast majority of rice currently sold in the United Kingdom retail market are Indica or long-grain varieties, with India and Pakistan the major supply countries at 22% and 18% respectively in 2019¹². There are some food manufacturing production facilities within the United Kingdom, which predominantly process Indica varieties from various stages into finished products, with a number of these facilities owned by such companies as Mars Inc (U.S. privately owned) and Ebro (Spanish owned). Japonica varieties accounted for a small proportion of total imports into the UK in recent years, with round and medium grain rice imports in all forms totaling 73,894 tonnes, 67,414 tonnes and 73,992 tonnes for the 2019, 2018 and 2017 calendar years respectively (compared with total annual rice imports including long grain of over 500,000 tonnes). Round and medium grain rice imports were predominantly from the European Union under the UK tariff line HS 1006 3092 (Wholly milled round grain rice, whether or not polished or glazed). Imports from Australia were mostly under HS 1006 3094 (Wholly milled medium grain rice, whether or not polished or glazed) and represented only 491 tonnes, 350 tonnes and 1219 tonnes in the 2019, 2018 and 2017 calendar years respectively out of total imports under that tariff line of 7620 tonnes, 7984 tonnes and 8732

⁴ SunRice Group 2020 Annual Report

(https://investors.sunrice.com.au/FormBuilder/Resource/module/2weQNICYSUy13FE_jxQXvg/file/annual-reports/Annual_Report_2020.pdf)

⁵ SunRice Group 2020 Annual Report

(https://investors.sunrice.com.au/FormBuilder/Resource/module/2weQNICYSUy13FE_jxQXvg/file/annual-reports/Annual_Report_2020.pdf)

⁶ SunRice Group 2020 Sustainability Snapshot

(https://investors.sunrice.com.au/FormBuilder/Resource/module/2weQNICYSUy13FE_jxQXvg/SunRice_Sustainability_Snapshot_2020.pdf)

⁷ World Rice Statistics database (<http://ricestat.irri.org:8080/wrsv3/about.html>)

⁸ Jena KK, Hardy B, editors (2012), "Advances in temperate rice research", International Rice Research Institute

⁹ World Rice Statistics database (<http://ricestat.irri.org:8080/wrsv3/about.html>)

¹⁰ SunRice Group 2019 Information Memorandum (<https://www.sunrice.com.au/water-efficiency/>)

¹¹ Euromonitor International Passport.

¹² International Trade Centre's Trademap website (<https://www.trademap.org/>)

tonnes respectively. ¹³

Australia also has a TRQ for 'rice brokens' (HS 1006 40) imports into the European Union (including the United Kingdom), which are fragments of rice grains that have been broken during the milling process. Rice brokens are used in activities such as brewing, flour milling and starch manufacturing. The Australian TRQ for rice brokens is currently 16,000 tonnes.

The largest and highest-growth segment of United Kingdom retail rice sales is private label, accounting for approximately 45% share in 2019, with an annualised growth rate of 6% per annum between 2016 and 2019¹⁴. In addition to the retail rice sales, the SunRice Group believes there is significant opportunity for its specialist short-grain sushi varietal (Koshihikari) to be sold into the UK sushi food service channel. Even with the existing prohibitive tariff and quota arrangements the United Kingdom inherited from the European Union, SunRice already supplies some customers in the United Kingdom with high-value sushi products. The Group believes there is significant opportunity to grow these sales with more liberalised trade arrangements.

5. The opportunity to export Australian rice products to the United Kingdom market

Given the similarities between the Australian and United Kingdom retail and food service markets, there is a significant opportunity for the SunRice Group to grow retail and food service sales if there are more liberalised trade arrangements introduced through the proposed AU-UK FTA.

Importantly, given the reasons outlined in this Submission, these sales would:

- Not threaten a domestic agricultural industry in the United Kingdom, as there is no domestic rice industry in the United Kingdom
- Be complementary to existing rice sales in UK retail and food service channels, as the varieties would be Japonica rather than the predominant Indica varieties
- Provide an additional premium branded alternative in the retail market, where private label sales currently account for the majority of rice sold
- Allow UK consumers to purchase alternative high-value Japonica varieties, from a trusted supply chain in Australia with clean and green credentials, and one of the world's most reputable rice food companies.

6. What we are seeking in the AU-UK FTA

Given there is no domestic rice production in the United Kingdom, we believe strongly that protectionist measures like tariffs and quotas is not warranted. We congratulate the Australian and United Kingdom Government's shared objective of trade liberalisation through this FTA.

As such, we are seeking the removal of all tariff and quota arrangements under the proposed Free Trade Agreement for Australian rice products sold into the United Kingdom.

This would allow further diversification of branded product offerings to consumers through the United Kingdom retail market, and also to food service customers. It would also provide another supply source of high-quality Japonica rice products to the United Kingdom.

As outlined earlier, the Australian rice industry has not secured any meaningful market access outcomes from any of the recent Free Trade Agreements that the Australian Government has negotiated.

We believe the Free Trade Agreement with the United Kingdom represents a significant opportunity to secure a meaningful market access outcome that would benefit Australian rice growers.

7. Further information

We would welcome the opportunity to provide the Australian Government with further information in relation to the issues raised in this Submission.

If the Department of Foreign Affairs and Trade would like further details, please contact SunRice's Head of Corporate Affairs, Mr Julian Luke, on 02 9268 2633 or jluke@sunrice.com.au.

¹³ UK Trade Info, managed by HM Revenue & Customs (HMRC).

¹⁴ Euromonitor International Passport.