



The Rice Food Experts

30 September 2016

Australia-European Union Free Trade Agreement
Europe Division
Department of Foreign Affairs and Trade
RG Casey Building , John McEwen Crescent
Barton ACT 0221

Proposed Australia-European Union Free Trade Agreement SunRice Public Submission

SunRice welcomes the opportunity to provide a submission on the potential opportunities for the Australian rice industry from a Free Trade Agreement (FTA) with the European Union (EU). While Australia does presently export milled Japonica rice to the EU, this trade is restricted because of the EU's application of Tariff Rate Quotas (TRQ), especially for milled rice product, and the prohibitively high tariffs on imported volumes above TRQ levels.

SunRice and the Australian Rice Industry

SunRice is one of the world's largest rice food companies and, notably, one of Australia's largest branded, processed-food exporters, with revenues exceeding A\$1.25 billion and over 2,000 employees, a large proportion of which are located in regional areas. SunRice manufactures more than 700 diverse, innovative and nutritious products and our brands are internationally recognised for their superior quality. SunRice products are exported to around 50 countries and we play an important role in supporting global food security, feeding more than 20 million people daily around the world.

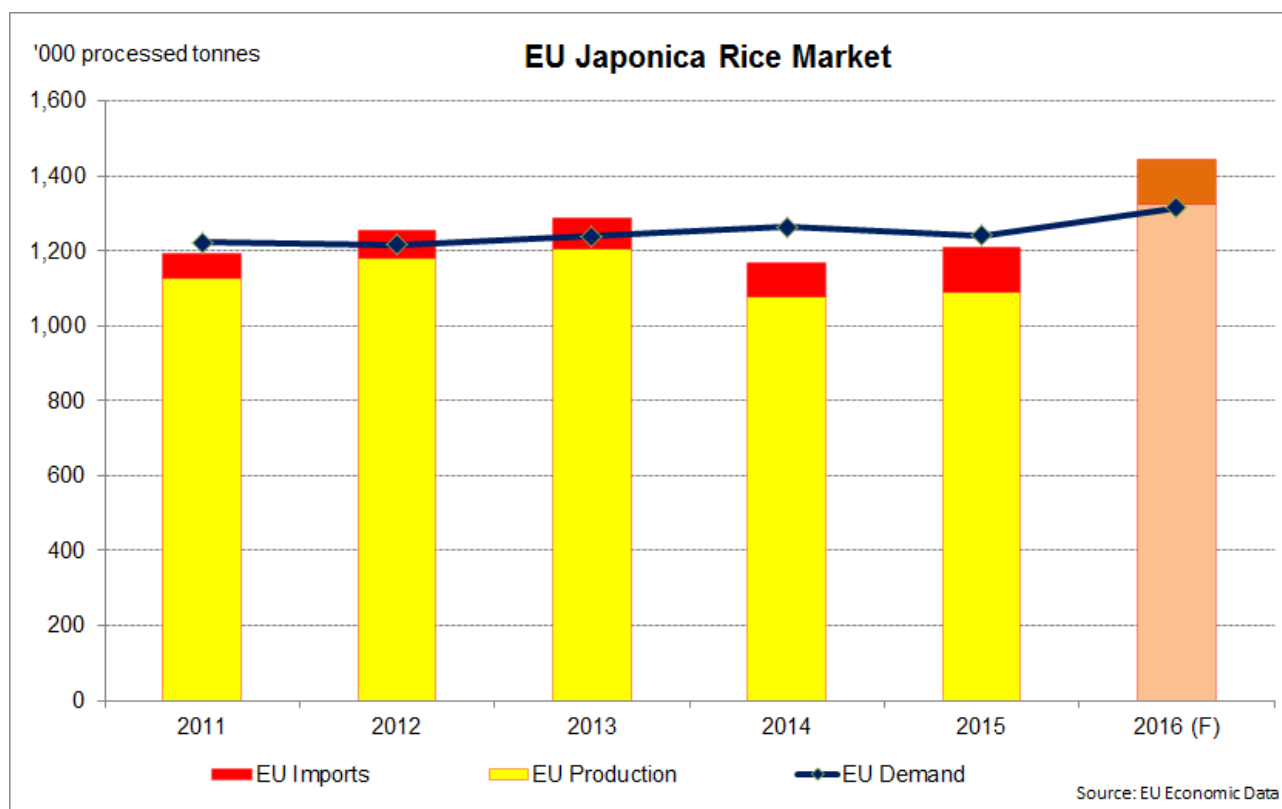
In an average year, Australian growers harvest around 750,000 tonnes of paddy rice, of which approximately 80% is exported, mainly to markets in the Pacific and the Middle East. Australian rice farmers are highly productive and efficient, achieving the best harvest yields in the world for medium grain varieties (averaging 11 tonnes per hectare – the average yield for countries that grow comparative varieties is around 7 tonnes) and using 50% less water than the global average. SunRice has a full 'paddy to plate' offering: with full traceability from the farm, through rice storage and milling, to distribution to the customer and consumer; and a pure seed programme that provides seed every year to growers, which ensures varietal purity.

It is important to note that the Australian rice industry has not benefitted from the recent FTAs that the Australian Government has negotiated with the major trading partners of Japan, China or South Korea, having been excluded due to cultural and political sensitivities regarding the domestic rice industries in those countries – cultural and political sensitivities that are unlikely to influence FTA negotiations with the EU. In addition, the Australian rice industry does not receive any

subsidies or protection measures from the Government – unlike rice industries and growers in competitor countries, including those beyond Asia and in the EU.

EU Japonica Rice Market

EU demand and supply for Japonica rice, which includes medium grain, short grain and Arborio varieties, is outlined in the chart below.



Between 2011 and 2015, EU production of Japonica rice decreased by 3% to 1.09 million milled tonnes, while imports of the same varieties increased by 71% to 0.12 million milled tonnes. During the same period, EU demand for Japonica rice increased by 1% to 1.32 million milled tonnes. In 2016, EU demand for Japonica rice is forecast to increase by 2% (year-on-year) and imports are forecast to increase by 6%.

The EU has growing demand for Japonica rice varieties that are unable to be supplied by EU production and this has driven the increase in import volumes. A major factor underpinning the material increase in EU Japonica rice imports has been the ‘sushi revolution’ – the phenomenal increase in the popularity of Japanese cuisine, which requires specialty and niche short and medium grain rice varieties. EU production of varieties suitable for Japanese cuisine is limited.

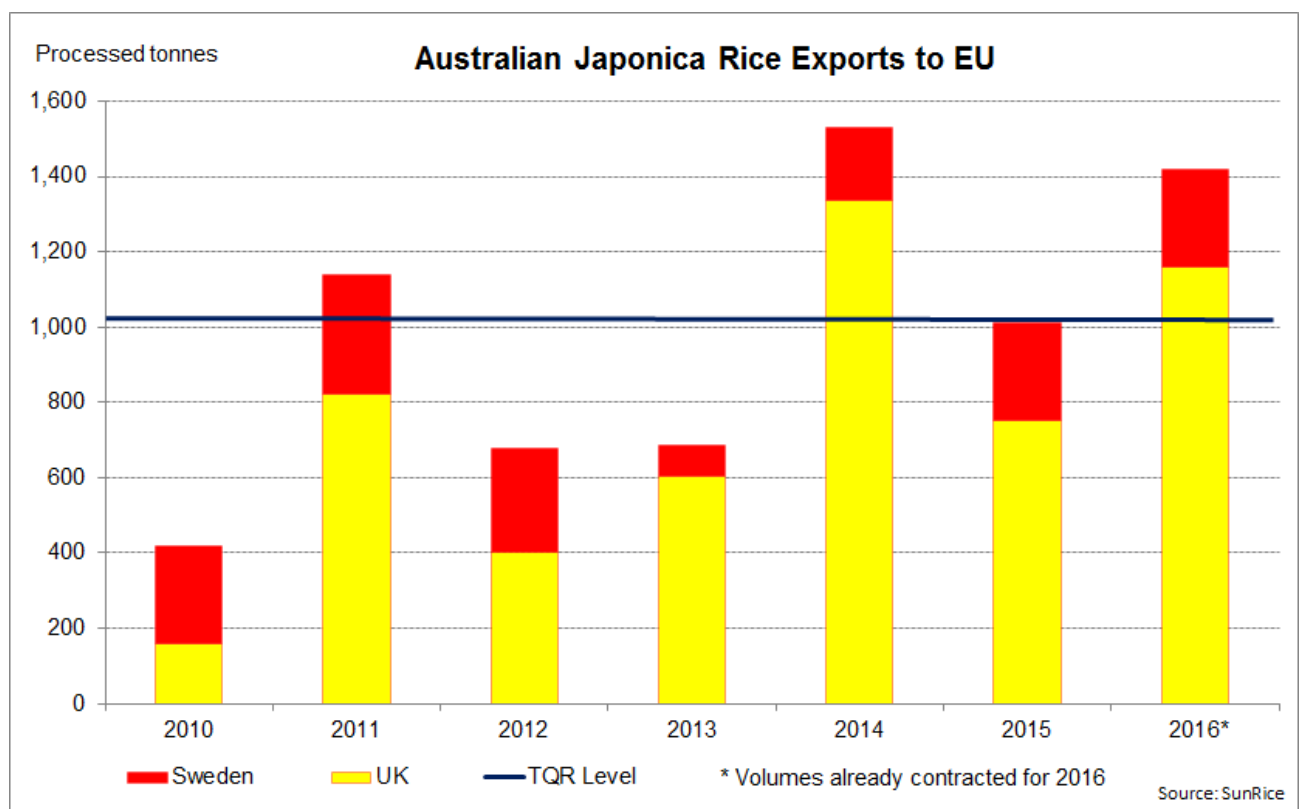
The Japanese Government estimates that Japanese cuisine restaurants outside Japan increased from 24,000 in 2006 to 89,000 in 2015 (+270%). Sushi has been one of the fastest growing foodservice sectors across the EU over the past decade, with country-by-country growth rates generally well above 10% per annum (the combined sushi market in the UK and France would now be approaching \$0.5 billion per annum).

Australia is an efficient producer of specialty Japonica rice varieties used in Japanese cuisine. SunRice sales of branded rice for global Japanese cuisine and sushi foodservice markets was approximately 25,000 milled tonnes in 2016, which represents overall volume growth of 85% since 2013. In addition, SunRice sales of unbranded Japonica rice into tender markets (Japan, South Korea and Taiwan) directly related to the Japanese cuisine and sushi foodservice sector average around 45,000 milled tonnes annually. SunRice estimates that sales growth in this sector will exceed 5% per annum over coming years, as the popularity of Japanese cuisine and sushi continues and SunRice moves to increase market share.

Australian Japonica Rice Exports to the EU

The total volume of Australian milled Japonica rice (HS 1006 30) exports to the EU have increased by 239% between 2010 and 2016, and exceeded or reached the TRQ level of 1,019 milled tonnes in 2011, 2014, 2015 and 2016. For 2016, Australian Japonica rice sales to the EU reflects those contracts already finalised in the first half of the year, and although there is scope for volumes to increase further, any additional imports would incur a tariff (discussed below), as the TRQ has already been exceeded by 300 milled tonnes. The graph below provides further detail on Australian Japonica rice exports to the EU between 2010 and 2016.

The TRQ level for Australian Japonica rice equates to less than 1% of the overall EU import volume for Japonica rice forecast for 2016. However and despite this period of considerable EU importation growth and the increasing demand for quality Australian Japonica rice, the TRQ volume for Australian milled rice imports has remained fixed at 1,019 tonnes.



Over the past few years, SunRice has consistently fielded inquiries from potential customers in the EU seeking to source Japonica rice from Australia, including the high quality Koshihikari variety that justifies a considerable price premium. SunRice estimates that should these inquiries have translated into sales, annual import volumes would have lifted Australian Japonica rice imports well in excess of the TRQ. Despite this clear signal of increasing demand for Australian Japonica rice, the tariff imposed on imports above Australia's TRQ is set at €175/tonne, representing an additional cost of between 15 and 20% to the average sales price – a prohibitive cost not willing to be borne by some customers.

Importantly for any future EU-Australia FTA negotiations in the context of the UK's exit from the EU, inquiries for potential sales have been received from customers in Denmark and France. These potential customers would have utilised Australian Japonica rice in value-adding processing and manufacturing operations for sushi and rice-cakes, and these activities would have positively contributed to the broader EU economy. Limiting importation volumes of Australian Japonica rice through TRQs and tariffs merely serves to increase the costs for value-adding food processing businesses operating within the EU.

Even taking into consideration the UK's exit from the EU, increasing demand from customers would indicate that there is undoubted scope for Australian Japonica rice import levels to consistently exceed the present TRQ and SunRice considers that these volumes could match the annual import levels achieved by major competitors, such as the US (+40,000 milled tonnes).

Trade limiting measures such as TRQs and tariffs also increase costs to Australian businesses that export commodities to the EU, especially considering the freight disadvantages (relative to competitor countries such as the US and Egypt), which could be mitigated through increasing trade volumes and improving economies of scale.

Australia also has a TRQ for 'rice brokens' (HS 1006 40) imports into the EU, 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 16,000 tonnes. However, strong domestic demand for rice brokens in Australia has limited the export of this product and has required the occasional importation of this product from other markets. As a result, Australia has not supplied any rice brokens into the EU market for several years. Since 2009, overall EU import volumes of rice brokens have been range-bound between 220,000 and 320,000 tonnes and decreased by 3%. Demand for lower value rice brokens is stable, compared to the growing demand for premium priced Japonica milled rice outlined above.

Competition in the EU Market

Australia's key competitors in the EU Japonica rice market have considerably higher TRQ volume levels (CN 1006 30) or no trade restrictions whatsoever, which provides them with considerable competitive advantages relative to Australia, both in terms of sales volumes, pricing and economies of scale. TRQs for competitor countries include: 41,109 milled tonnes for US imports, which is fully allocated in most years; 81,149 milled tonnes for Egypt; 30,000 milled tonnes for Vietnam; and unrestricted quotas for 'Least Developed Countries' such as Laos and Myanmar.

Other rice producing nations that export considerable volumes to the EU, such as India, Pakistan and Thailand, primarily produce long grain Indica and Basmati rice varieties, which

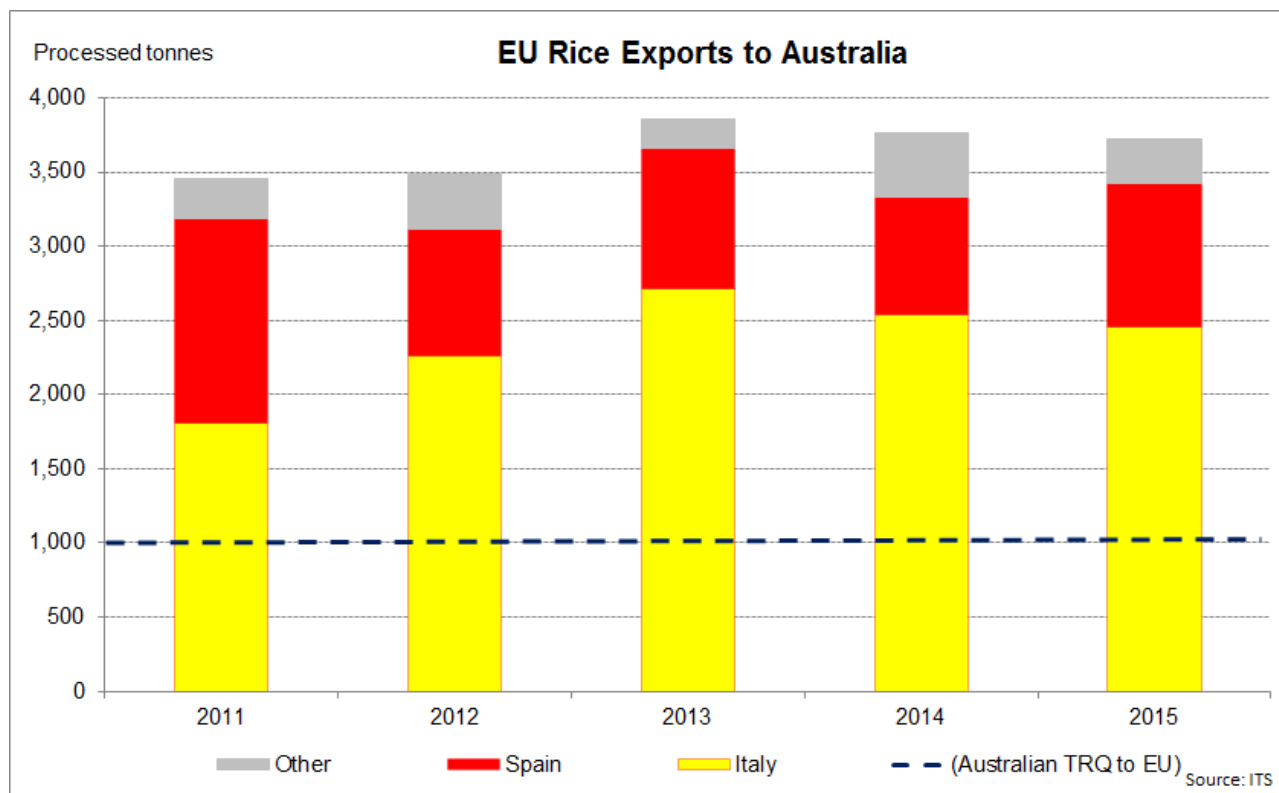
cannot be used to satisfy the increasing demand for Japonica rice used in Japanese and sushi cuisines.

EU Rice Exports to Australia

Australia does not impose any quota or tariff on rice imports. Similar to Australia, EU rice exports are dominated by Japonica rice varieties, which represent around 90% of total volumes. Between 2011 and 2015, EU rice exports to Australia increased by 8% to 3,724 milled tonnes. During this period, EU rice, on average, represented around 3% of *all* Australian rice imports (irrespective of variety) and 25% of Australian Japonica rice imports. The TRQ level for Australian Japonica rice equates to less than 1% of the overall EU import volumes for Japonica rice forecast for 2016.

Just as growing EU demand for Australian Japonica rice is being driven the by the increasing popularity of Japanese cuisine with consumers, the demand for EU rice in Australia is benefitting from consumer trends that focus on product provenance. As a result of this trend, Arborio variety rice imports from Italy have increased since 2011. While Australia does produce Arborio type rice, the volume produced typically represents less than 0.5% of the total Australian rice harvest and is not enough to satisfy domestic demand.

Unlike the EU, Australia does not place any restrictive trade measures on the importation of milled rice and maintains an open and competitive market that benefits both consumers and businesses. While EU rice exporters are able to benefit from Australian consumer trends unencumbered, Australian rice exports to the EU are unable to take full advantage of increasing demand for our high quality product (driven by the growing popularity of Japanese cuisine), even despite the inability of the EU to supply the same product domestically.



Summary

Demand from the EU for quality Australian Japonica rice imports to be used in value-adding food processing activities, primarily related to the 'sushi revolution', continues to increase. The demand for Australian Japonica rice in the EU exceeds the restrictive TRQ level of 1,019 milled tonnes. EU rice exports to Australia are unrestricted and account for 25% of total Japonica rice imports (compared to Australian imports into the EU being less than 1% of total Japonica rice volumes).

The EU's increasing demand for Australian Japonica rice and an unfavourable trade imbalance in this commodity justifies an adjustment of the Australian TRQ to levels commensurate with competitors, such as the US (41,109 milled tonnes) and Egypt (81,149 milled tonnes).

Due to domestic demand, Australia has not exported any low priced 'rice brokens' to the EU, despite a more generous import TRQ of 16,000 tonnes for this product.

The Australian rice industry has not benefitted from recent FTAs signed with Japan, China or South Korea and is not provided any subsidies or protection from the Australian Government (unlike many competitors). While recognising the challenges of including Australian rice in FTAs focused on Asian markets due to cultural and political sensitivities, these factors, as relating to the rice industry, are unlikely to impact on trade negotiations with the EU.

The Australian rice industry is well positioned to benefit from an EU FTA. Australian rice growers are the most efficient in the world and the industry produces quality Japonica varieties for which EU demand is increasing, such as short grain Koshihikari and Opus, and medium grain Calrose-type Sherpa and Reiziq.

SunRice would welcome further discussions with the Department of Foreign Affairs and Trade and other relevant Australian Government departments on how the Australian rice industry could benefit from any future FTA negotiated with the EU.

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