



The Rice Food Experts

5 May 2017

Free Trade Agreement Division  
Department of Foreign Affairs and Trade  
RG Casey Building, John McEwen Crescent  
Barton  
ACT 0221

## **Proposed Australia-Indonesia Comprehensive Economic Partnership Agreement SunRice Public Submission**

SunRice welcomes the opportunity to provide a submission on the potential opportunities for the Australian rice industry from a Comprehensive Economic Partnership Agreement (CEPA) with Indonesia. Australia has previously exported milled Japonica rice products to Indonesia, but this trade ceased in SunRice's 2015-2016 financial year because of challenges presented by several issues related to ongoing Indonesian Government policy settings, including:

- Inconsistency in, and variations to, labelling requirements and regulations;
- Difficulties in obtaining necessary import quota/permit approvals;
- Irregular indications that policy settings regulating the importation of rice could change from the established quota system to a tariff system; and
- Occasional complete suspension, with minimal notification, of rice imports.

SunRice's analysis of market data and consumer trends indicates that, with the removal of impediments to trade, Indonesia would again be an attractive export market for the Australian rice industry.

### **SunRice and the Australian Rice Industry**

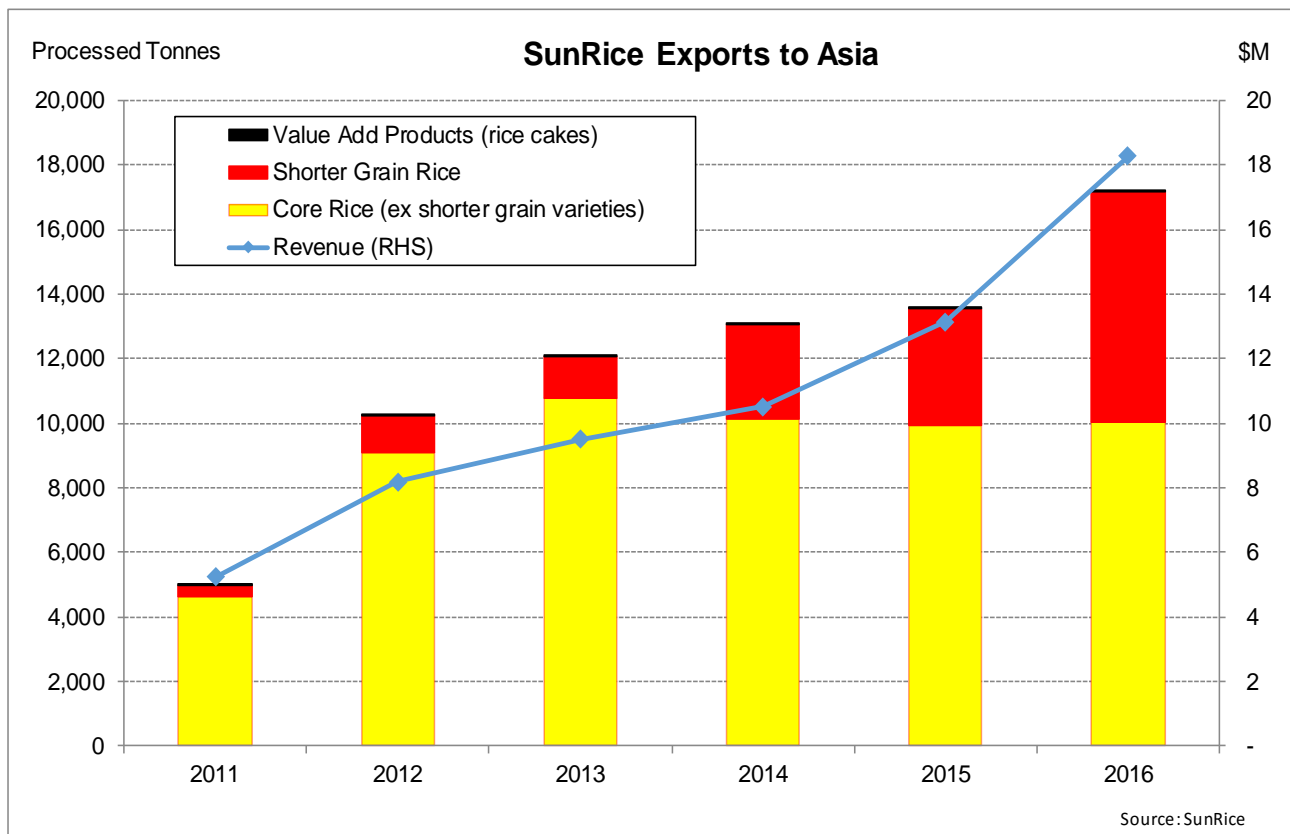
SunRice is one of the world's largest rice food companies and, notably, one of Australia's largest branded, processed-food exporters, with revenues exceeding \$1.25 billion and over 2,000 employees, a large proportion of which are located in regional areas. SunRice manufactures more than 700 diverse, 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 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.

## Exporting Rice to Asia

The Australian rice industry has not benefitted from the Free Trade Agreements (FTA) that the Australian Government has negotiated with the major trading partners of Japan, China or South Korea. The Australian rice industry was excluded from these FTAs due to cultural and political sensitivities regarding the domestic rice industries in those countries. Such cultural and political sensitivities are common across Asia, where rice is a major domestic crop, considerable export earner and an integral part of regional and national cuisines. Unlike rice industries and growers in competitor countries across Asia, including Indonesia, the Australian rice industry does not receive any subsidies or protection measures from the Government.

SunRice fully anticipates that cultural and political sensitivities will influence CEPA negotiations with Indonesia regarding rice exports from Australia. Nevertheless and despite these challenges, SunRice has identified and developed profitable consumer and food service markets across the Asian region and sales volumes and revenues have grown considerably.



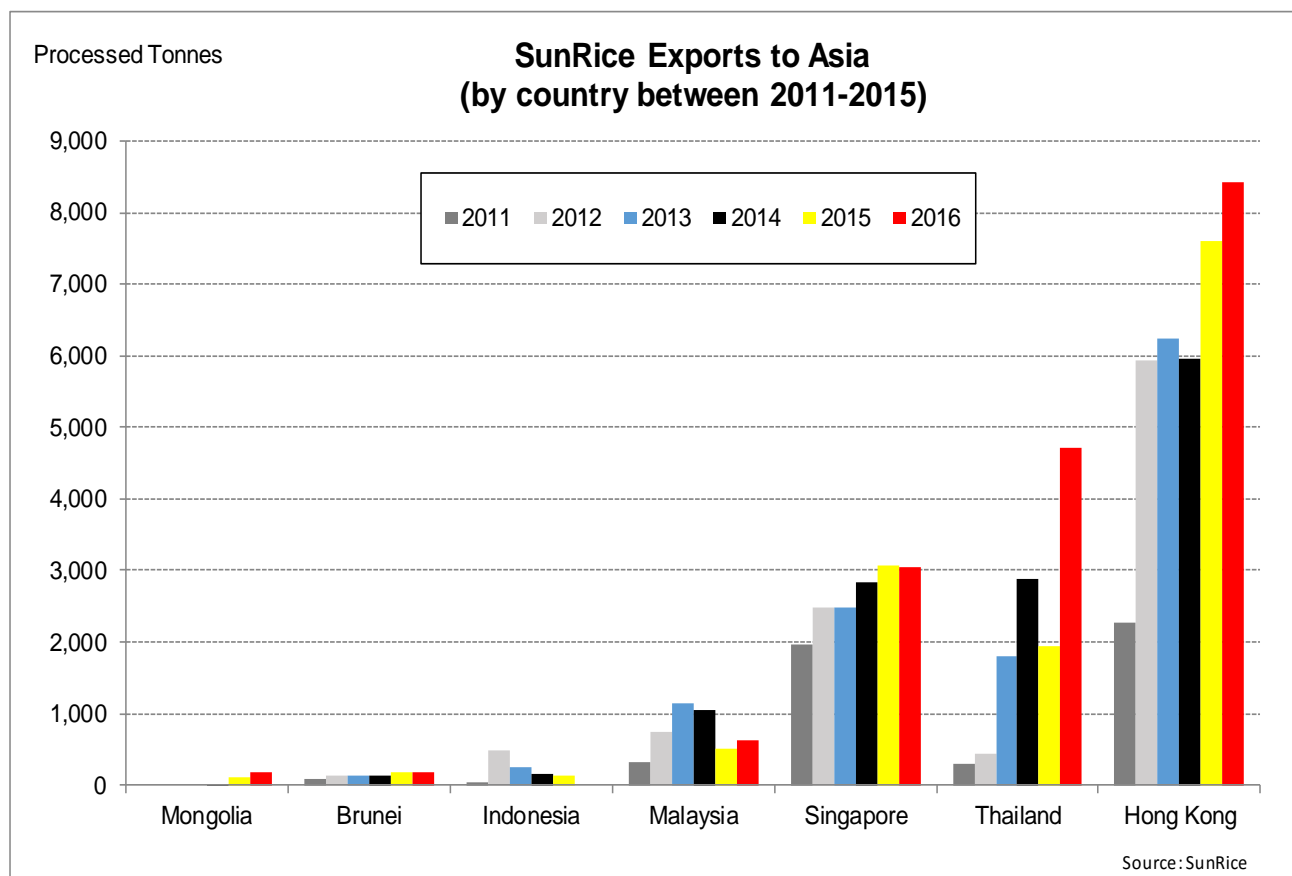
As outlined in the chart above, SunRice total exports to Asia have grown by 246% to just over 17,000 processed tonnes since 2011. Impressive (almost 2000%) growth has been experienced by shorter grain rice varieties, which is being driven by the increase in popularity of Japanese cuisine – refer below for more detail on the ‘sushi’ revolution. Sales revenue growth from trade into Asia has increased by 249% to \$18.3 million.

Underpinning SunRice’s growth in Asia is the well-documented macro-consumer trend of a burgeoning middle class demanding ‘cleaner and greener’, high quality product. Given SunRice’s full ‘paddy to plate’ offering, its fully integrated supply chain and well respected suite of brands, the Company has been able to leverage this trend, especially in markets where policy settings related to rice imports have been consistent and, as a result, access has been reliable (refer chart overleaf).

The 'sushi' revolution is another trend driving SunRice exports to Asia, through increased sales of shorter grain rice varieties, which sell at a premium price point compared to medium and longer grain varieties, into the foodservice sector. 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 world over the past decade, with country-by-country growth rates generally well above 10% per annum.

Importantly, Australia is an efficient and sustainable producer of quality Japonica rice varieties used in Japanese cuisine. These varieties are best grown in temperate (as opposed to tropical) climates and Australia is only one of a limited number of countries able to produce quality Japonica rice products.

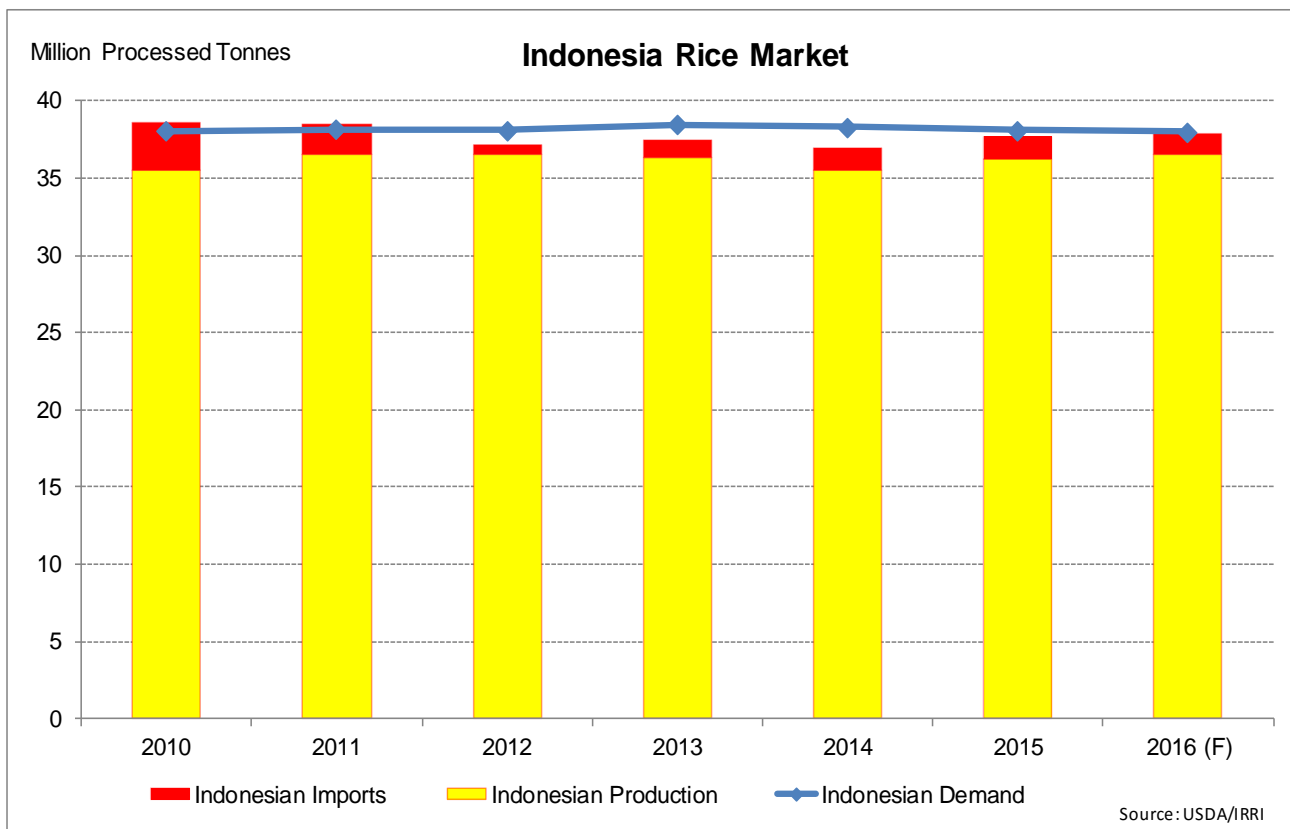
SunRice sales of branded rice for global Japanese cuisine and sushi foodservice markets was approximately 25,000 milled tonnes in 2016, which represents overall volume growth of 85% since 2013. In addition, SunRice sales of unbranded Japonica rice into tender markets (Japan, South Korea and Taiwan) directly 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.



### Indonesia's Rice Market and the Opportunity for Australia

Indonesia is primarily a long grain (Indica variety) rice market, and the Indonesian Government has placed a strong emphasis on self-sufficiency over recent years. Similar to the rest of Asia, rice is the staple food. As to be expected, rice importation is a particularly sensitive issue, due to these cultural and domestic political angles.

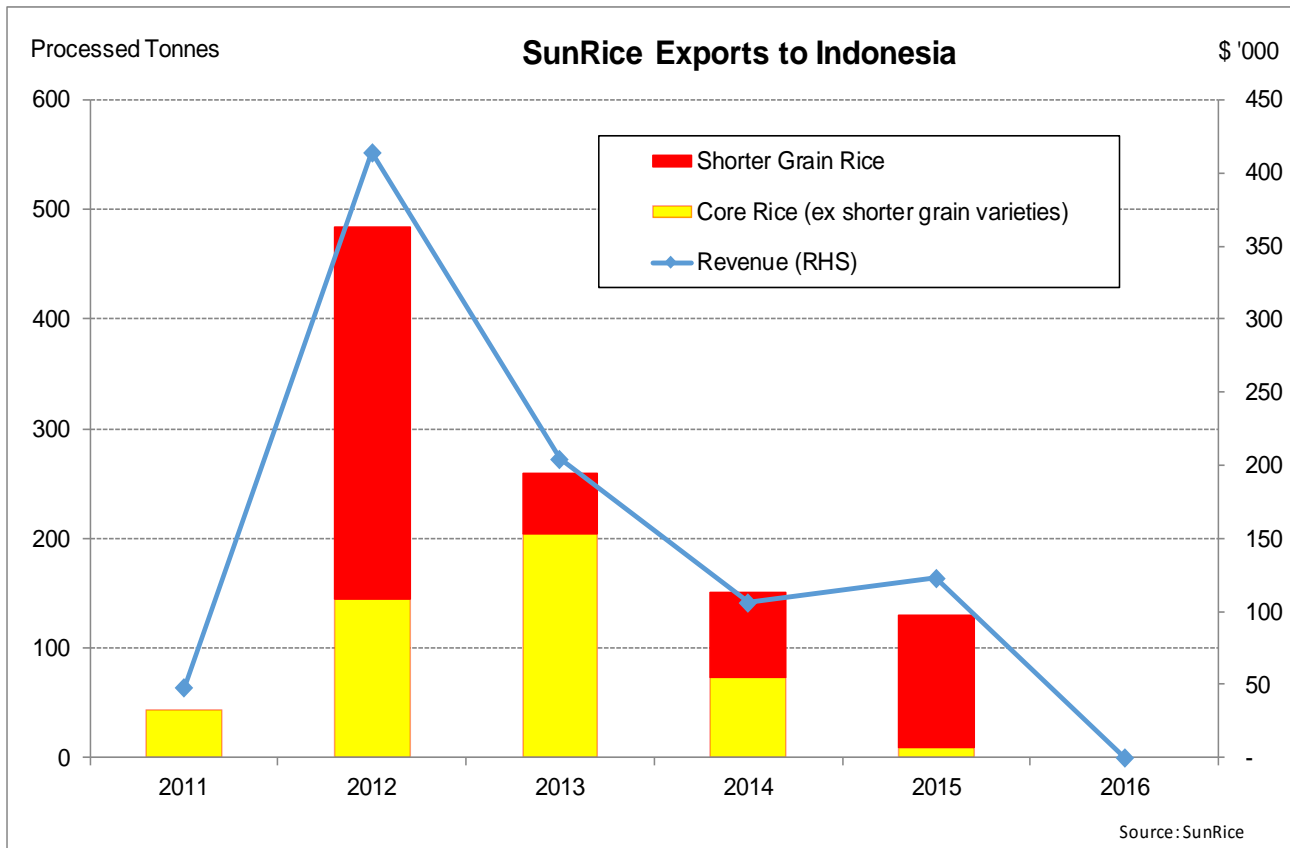
However, as with the rest of Asia, Indonesia is experiencing the consumer trends outlined above regarding increasing middle class demand for high quality specialised rice products and the ongoing popularity of Japanese cuisine, as well as the expansion of modern grocery formats, which between 2009-2014 grew by 61% yet only accounts for 16% of retail trade.



These segments of the market – specialty medium grain rice products for discerning consumers, specialty rice varieties for the foodservice segment and modern grocery formats – offer a particularly compelling niche proposition for Australian rice exports to Indonesia. SunRice did previously import rice into Indonesia, with a growing proportion of this trade being shorter grain rice varieties for the foodservice sector, until 2016 when regulatory challenges became overly burdensome (refer chart overleaf).

A critical point to highlight regarding Australian rice imports into Indonesia is that these have always been specialised, niche and branded. Australia has never exported bulk rice to Indonesia. Indeed, well over 95% of all Australian rice exports are branded rather than bulk products. Australian rice products are unlikely to ever threaten the traditional markets of domestic rice growers throughout Asia. Rather, they will continue to cater to a limited, yet growing segment of the market that is already serviced by imports from Japan and the USA.

Having assessed the particular niche and specialty markets in which SunRice would be able to compete (modern retail sales point for branded packaged rice products and foodservice for short grain varieties), as well as the anticipated growth rates for these markets and the likely achievable market share for Australian rice exports, the total Indonesian opportunity could equate to approximately 15,000 processed tonnes per annum after six years. If this volume level was achieved, rice export revenues approaching \$20 million per annum could be generated for Australia.



### Indonesian Market Access Challenges

Australian specialty rice exports to Indonesia are impacted by inconsistent and inefficient policy settings, dominated by non-tariff measures and barriers such as a **quota system** for specialty rice products and **labelling requirements**, as well as occasional Indonesian Government decrees halting the importation of rice generally.

Private importers of specialty rice (as opposed to the state operated importer of non-specialty rice) must obtain a quota and special importer identification number issued by the Department of Agriculture. Private import quotas are issued quarterly and managed through well-connected Indonesian importers. SunRice understands that a secondary market has evolved in import quotas for specialty rice, which further adds to the cost of importation into Indonesia. There is speculation following a World Bank report in 2016 that the Indonesian Government could review and replace the current quota system with tariffs in order to open trade to more competition. SunRice is unsure whether this review would apply to the specialty rice segment of the market.

SunRice's final shipment of rice products to Indonesia was adversely affected by compliance issues related to labelling requirements. Having received advice from relevant agencies and certifiers on the packaging requirements for the import shipment, in order to obtain the necessary paperwork, a regulatory change was introduced that required mandatory Bahasa language labelling and another requirement to include a recycling logo in regards to packaging (rather than the *non-recycling* logo that existed on SunRice packs). This regulatory change was introduced after the SunRice shipment was already in transit and while the rice shipment was on the water. The shipment was subsequently redirected whilst in transit and returned to Australia. Following assessment of the new labelling requirements and the risk that these could be amended again at short notice, SunRice could not justify developing and implementing new packaging processes to ensure compliance for future shipments given the size of the Indonesian market at the time.

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In 2004, 2012 and 2015, the Indonesian Government, presumably as a measure to appease domestic growers and mollify domestic political considerations, officially banned private sector rice imports. While SunRice understands such bans have been overturned due to subsequent harvest sizes and domestic demand considerations, such decisions serve to demonstrate the inconsistent and sporadic nature of policy settings that impact Indonesian rice imports.

## **Summary**

Underpinned by macro-consumer trends focused on a burgeoning middle class and the ongoing popularity of Japanese cuisine, SunRice is confident that Indonesia could, once again, be an export market for Australian rice. SunRice has identified that the potential market opportunity in Indonesia could generate revenues approaching \$20 million for the Australian rice industry.

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 Asian competitors). While recognising the challenges of including Australian rice in FTAs focused on Asian markets due to cultural and political sensitivities, in those Asian countries where there are consistent policy settings regarding rice imports and reliable market access (such as Hong Kong, Thailand, Singapore and Malaysia), SunRice has established growing and profitable businesses. We would encourage the Australian Government to encourage the Indonesian Government to address inconsistencies and irregularities in the way it implements policy settings related to specialty rice products, especially regarding labelling requirements and the quota system.

The Australian rice industry is well positioned to benefit from a CEPA with Indonesia. Australian rice growers are the most efficient in the world and the industry produces quality Japonica varieties for which Indonesian demand is increasing. An important point to highlight is that Australian rice exports to Indonesia would be branded, packaged and specialised products catering to a niche and limited, yet growing, segment of the market already serviced by US and Japanese exporters. Australian specialty rice exports would never pose a threat to Indonesia's domestic rice growers or their traditional markets.

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 CEPA negotiated with Indonesia.

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