



The Rice Food Experts

14 February 2017

Committee Secretary
Joint Standing Committee on Foreign Affairs, Defence and Trade
PO Box 6021
Parliament House
Canberra ACT 2600

Australia's Trade Relationship with the United Kingdom (UK) SunRice Public Submission

SunRice welcomes the opportunity to provide a submission on the potential opportunities for the Australian rice industry as a result of the UK's exit from the European Union (EU). Milled Japonica rice – medium and short grain varieties – exported to the UK presently represents the vast bulk of SunRice's trade to the EU. Since 2011, the UK market has averaged almost 80% of SunRice's total volume of trade to the EU. The market for Australian Japonica rice in the UK is growing strongly due to the phenomenal increase in the popularity of Japanese cuisine.

However, Australian milled rice exports to the UK are restricted because of the broader EU's application of Tariff Rate Quotas (TRQ) and the prohibitively high tariffs on imported volumes above the TRQ levels.

The UK's exit from the EU, and the possible negotiation of a Free Trade Agreement (FTA) between Australian and the UK, represents a significant opportunity for Australian rice exports into a market where there is demonstrable and increasing demand for high quality Australian rice.

SunRice and the Australian Rice Industry

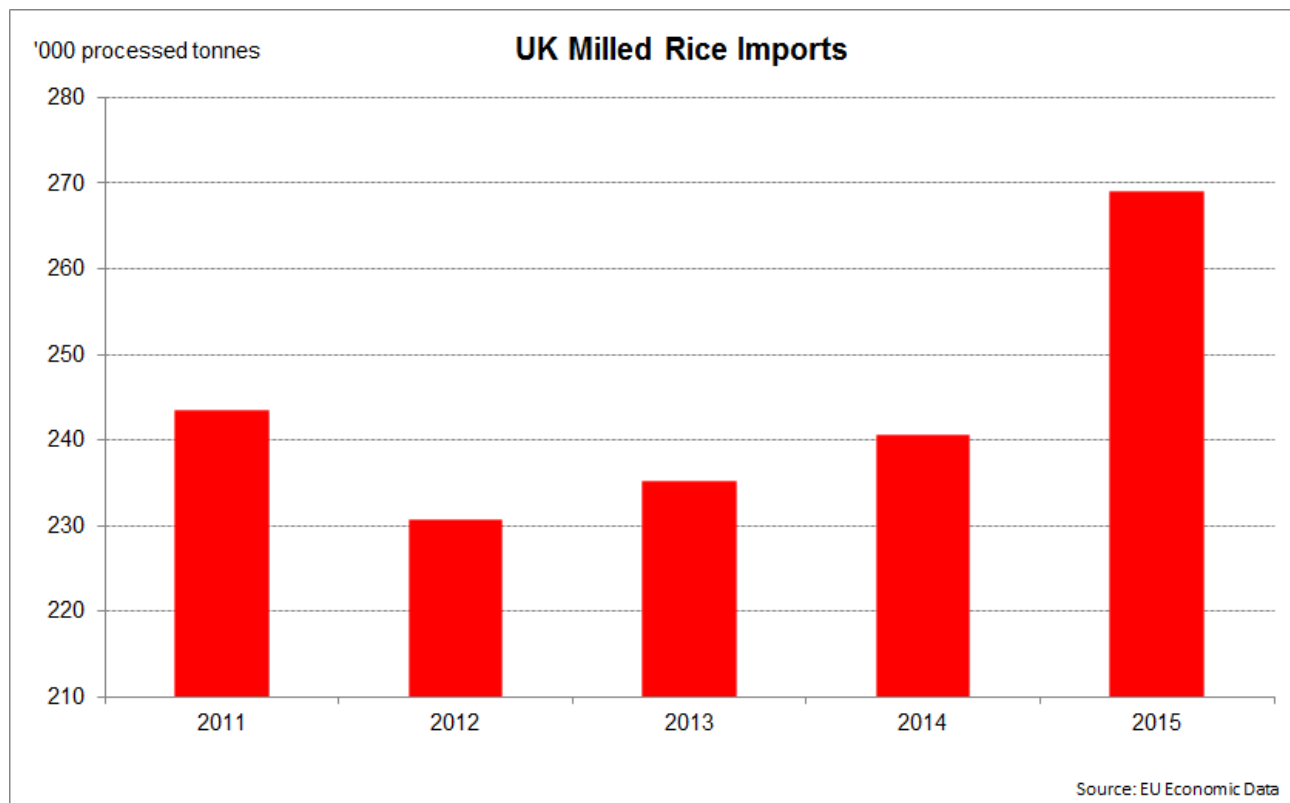
SunRice is one of the world's largest rice food companies and, notably, one of Australia's largest branded, processed-food exporters, with revenues exceeding A\$1.25 billion and over 2,000 employees, a large proportion of which are located in regional areas. SunRice manufactures more than 700 diverse, 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 food security, feeding over 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 recent FTAs that the Australian Government 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 any future FTA negotiations with the UK*. 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.

UK Rice Market

Between 2011 and 2015, the UK importation of milled rice, which includes medium grain and short grain varieties, increased by 11% to 269,000 tonnes. This growth is outlined in the chart below.



The major sources of UK rice imports are Italy, Spain, the US, India and Thailand.

The UK has increasing demand for Japonica rice varieties (the dominant varieties grown in Australia), which cannot be fully satisfied by EU production, and this has driven an expansion in import volumes. A major factor underpinning the material increase in UK 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.

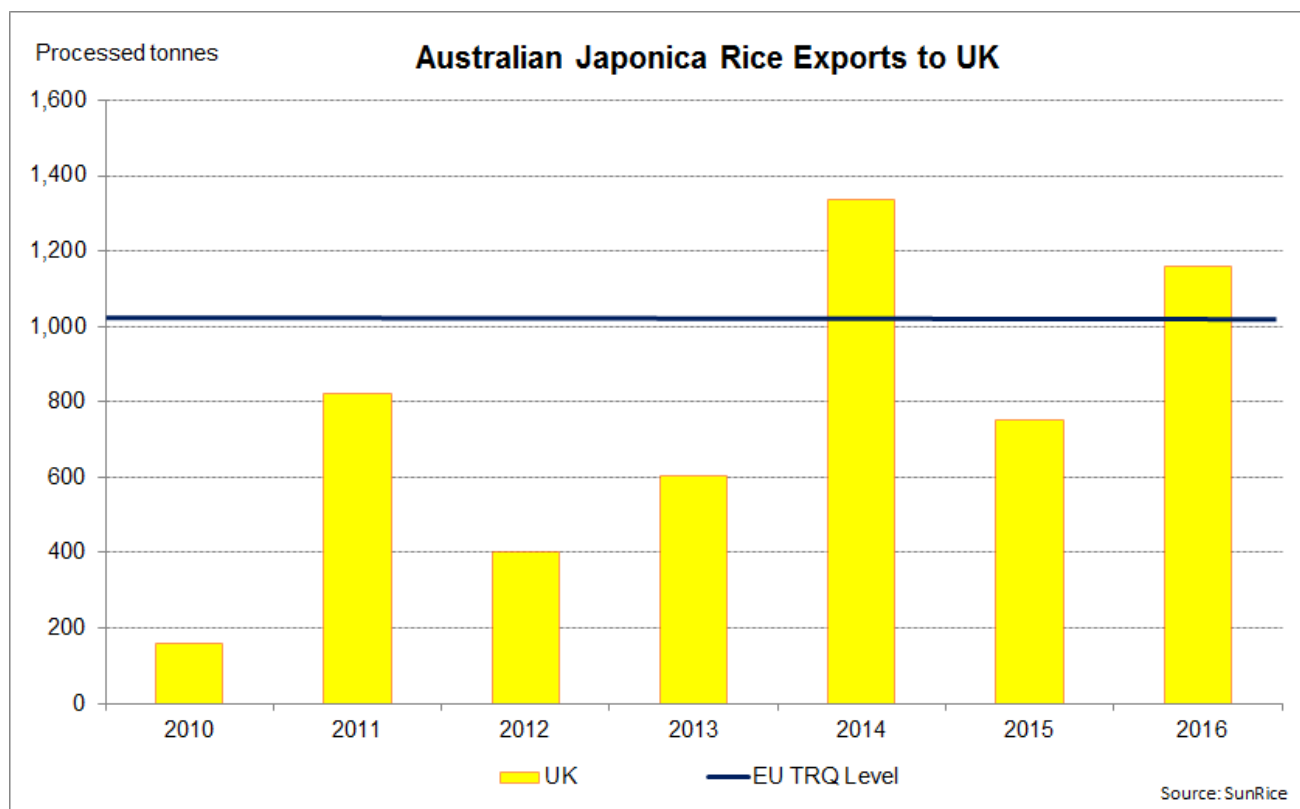
The Japanese Government estimates that Japanese cuisine restaurants outside Japan increased from 24,000 in 2006 to 89,000 in 2015 (+270%). Sushi has been one of the fastest growing foodservice sectors across Europe: the combined sushi market in the UK and France would now be approaching US\$0.5 billion 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 UK

The total volume of Australian milled Japonica rice (HS 1006 30) exports to the UK increased by 626% between 2010 and 2016 to 1,161 tonnes. Even in isolation when excluding sales volumes to SunRice's other EU markets such as Sweden, Australian rice exports to the UK exceeded the broader EU's TRQ level of 1,019 milled tonnes in 2014 and 2016 (refer chart below).



Over the past few years, SunRice has consistently fielded inquiries from potential customers in the UK seeking to source Japonica rice from Australia. Indeed, SunRice is presently fielding inquiries from UK customers that could potentially increase the volume of sales into this market by between 2,500-3,000 tonnes per annum. Should these inquiries translate into sales, annual import volumes of Australian Japonica rice to the UK would well exceed the EU's present TRQ every year.

In the context of future trade negotiations with the UK, it should be noted that attempting to limit the importation of Australian Japonica rice through TRQs and/or tariffs (as presently undertaken by the EU) merely serves to increase the costs for value-adding food processing businesses operating domestically within the UK. Despite increasing demand for Australian Japonica rice, the EU tariff imposed on imports above Australia's TRQ is set at €175/tonne, representing a significant additional cost of between 15-20% to the average sales price. This is a prohibitive cost not willing to be borne by some customers, which is not surprising given these potential customers would have utilised Australian Japonica rice in value-adding processing and manufacturing operations for sushi and rice-cakes, and the tariffs would have merely added to already material input costs.

Without any trade restrictions, SunRice considers that Australian rice export volumes to the UK could match annual levels achieved by major competitors, such as the US. An annual export target of 40,000 tonnes of milled rice (a 40 fold increase on current levels) would not be an unrealistic expectation and would generate revenues approaching A\$60 million.

Trade limiting measures such as TRQs and tariffs also increase costs to Australian businesses that export commodities to the UK, 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.

Australian Rice Industry should benefit from a future FTA with the UK

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, such factors should not impact in any way on trade negotiations with the UK as it has no domestic rice industry to protect or support.

The Australian rice industry is well positioned to benefit from a future FTA with the UK. Australian rice growers are the most efficient in the world and the industry produces quality Japonica varieties, such as short grain Koshihikari and Opus, and medium grain Calrose-type Sherpa and Reiziq, for which UK demand is increasing due to the 'sushi revolution'. Future potential export volumes of Australian Japonica rice to the UK could be expected to reach 40,000 tonnes per annum and generate revenues approaching A\$60 million.

SunRice recommends that any future FTA negotiation with the UK ensures unrestricted access and the removal of tariffs for any rice imports from Australia.

SunRice would welcome further discussions with the Australian Government on how the Australian rice industry would benefit from any future FTA negotiated with the UK.

Key Contact:

Milton Bazley
General Manager, International Commodity

SunRice
PO Box Q166
QVB Post Shop NSW 1230