



23 March 2012

Committee Secretary
Senate Standing Committees on Rural Affairs and Transport
PO Box 6100
Parliament House
Canberra ACT 2600
Australia

Dear Sir / Madam,

RE: Senate Standing Committees on Rural Affairs and Transport Operational Issues in Export Grain Networks Inquiry

Please find attached a submission from Grain Producers SA Ltd (GPSA) regarding the Senate Standing Committees on Rural Affairs and Transport Operational Issues in Export Grain Networks Inquiry.

If you have any questions around the submission, please contact Darren Arney (chief executive officer) on _____ or _____

Yours Sincerely

Darren Arney

Chief Executive Officer; Grain Producers SA Ltd

Senate Standing Committees on Rural Affairs and Transport Operational Issues in Export Grain Networks Inquiry, by Grain Producers SA Ltd (GPSA).

Overview

Grain Producers SA Ltd (GPSA) is a recently formed organisation that seeks to represent all grain producers in South Australia.

GPSA's objectives are to improve the profitability and sustainability of South Australian grain producers through:

- Representing the views of South Australian grain producers to government, industry and the community on grains issues;
- Working with an effective state farming organisation and other commodity groups to represent South Australian grain producers on cross commodity issues;
- Working with government and industry to develop policies around creating and maintaining an efficient, accessible and cost effective supply chain;
- Working with government, industry and institutions to improve the technical and business skills of South Australian grain producers
- Working with Research, Development and Extension organisations to identify and disseminate research priorities in grain production, handling and management
- Supporting an effective national representative organisation to work with government around national initiatives to support the grains industry
- Providing a program to include and develop young farmers to be prepared to take on leadership roles within the SA grains industry.

The views expressed in this submission are consistent with the views previously expressed by the South Australian Grains Industry Committee under the chair of Michael Schaefer which operated from 2008 to February 2012.

Submission

This submission is made subsequent to the takeover offer of Viterra Ltd (Viterra), by Glencore International plc (Glencore), and looks at the issues around the monopoly storage and handling system in South Australia.

GPSA is of the view that previous submissions and evidence provided to the committee by GPSA and the South Australian Farmers Federation Grains Industry Committee stand regardless of the ownership of the bulk handling networks in Australia and in particular South Australia.

The key points of concern are:

- Open and transparent information on grain stocks held in bulk handling entities
- Grain pools be covered under Australian Financial Services Regulations
- Improvement in access and transparency of pricing of third party deliveries in the bulk handling system
- Improved road and rail access
- Independence in testing and classification
- Enhanced powers of WEA to cover all grains and the whole supply chain

GPSC refers in particular to the submission made in November 2011 around the requirement for:

- The publication of information and disclosure of stocks held
- Equitable access to the grain handling infrastructure in South Australia

These need to address these issues are somewhat heightened, should Glencore be successful in the purchase of Viterro, particularly in South Australia.

Total grain production in South Australia for 2011/12 season was 7.936 million tonnes, with a market value of over \$2.5 billion, being predominately wheat (4.445 million tonnes) and barley (2.032 million tonnes). Most of this grain is exported in bulk, as there is a limited domestic market for grain (annual domestic wheat consumption in South Australia is approximately 500,000 tonnes). Grain packing in containers for export is limited by container availability in South Australia and is only available to grain growers in the catchment zone of Port Adelaide.

The market share of wheat exports from South Australia comprise around 30% for Viterro and 19% for Glencore. Should market share remain unchanged, then the combined entity will purchase 50% of the wheat from South Australia grain growers.

The market share of barley exports from South Australia is not publicly known. However a considered opinion would allocate a greater than 60% share to the combined entity. This is based on the fact that Viterro owns the malting facilities in South Australia, and also anecdotal evidence. Actual figures would be able to be obtained from Viterro, as there is very little barley received by third party bulk handlers.

This grain would be loaded onto bulk vessels through the monopoly bulk handling entity owned by the combined entity. Competitor exporters will also need to use the monopoly bulk handling entity to load their vessels, and the near monopoly up country storage and handling facilities to accumulate grain.

Appendix

Extracts from previous submissions by SAFF grains Industry Committee.

6. Publication of information and disclosure of grain stocks held

Currently there is no ring fencing mechanisms in place to preventing Viterra Operations disclosing stock information to Viterra Trading which would then provide the whole company a commercial advantage over competing traders.

Additionally, Viterra are aware of the amount and type of grain owned by competitor traders in the Viterra system. Viterra is also aware of the shipping arrangements of competitor exporters.

Recommendation

Information on commodity, grade, quality and tonnage of grain (per cell / bunker) delivered to any Viterra or Grain Trade Australia (GTA) member bulk handler and are Viterra Third Party Approved to be provided in real time free of charge to the market.

Total receivals, carryover, export and domestic out turn for all grains, be provided to the market on a real time basis by the same entities outlined above.

That growers have the right to “opt in” to warehouse disclosure of commodity, tonnage, quality and site to be available daily to be viewed by traders.

Grain held in bulk storage is considered “co-mingled”. The information on commodity, quality, tonnage and cell is regarding the co-mingled grain held on behalf of growers and traders, not individual loads delivered by growers or tonnages owned by individual entities.

7. Market Dominance

Viterra by its own admission (Press release 9 June 2011) owns and operates approximately 95% of South Australia's storage and all of its port terminal capacity.

Viterra is also the largest buyer of grain in South Australia (34% 2011). For competing grain buyers (66%) to load grain onto a bulk vessel, the grain must move through the monopoly Viterra storage and handling system.

2010/11 harvest saw close to 10 million tonnes of grain harvested with around 8.5 million delivered to the one bulk handler. The value of the grain stored with the one entity was around \$3 billion FOB.

There are a number of inherent risks associated with having only one export loader and storage and handling entity;

- Sovereign risk, where an overseas sovereign entity purchases either Viterra international or Viterra Limited and therefore controls the majority of the South Australian grain supply chain
- Intra company risk, where the solvency of the South Australian operations of the company are jeopardised by transfer of funds to the parent company (eg. Ansett and Air New Zealand)
- Counterparty risk, where actions taken against the bulk handler can have adverse affects on third parties with grain in that system
- Brand risk, where operations of the bulk handler in the grain market or other markets, could impact on the brand / desirability of South Australian grain
- Industry Risk, where actions by the bulk handler could impact grain owners, eg. A company shut such as Qantas in late Oct 2011

Recommendation

An independent risk assessment of the grain storage and handling system in South Australia should be conducted as soon as possible to determine possible risks to the grain supply chain.

A framework needs to be developed to ensure the market dominance of the bulk handler does not become detrimental to the grain growers of South Australia. It should include a guarantee from the parent company of the bulk handler and the deposit of funds in an escrow account to ensure operations of the bulk handling system can continue, should an adverse incident affect the operations of Viterro in South Australia.