Submission to the South Australian Parliament Select Committee on the Grain Handling Industry from the South Australian Farmers Federation Grains Industry Committee 27 October 2011

Overview

Farmers have invested over $40 billion in farm capital in South Australia, contributing to the employment of 33,000 people directly in farming and an additional 146,000 employed in the food sector.

Total grain production in South Australia for 2010/11 season was 10.341 million tonnes, with a market value of over $3.5 billion, being predominately wheat (5.818 million tonnes) and barley (2.839 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.

South Australian farmers depend on an efficient and cost effective storage and handling system. Every dollar of costs within the supply chain needs to be absorbed by the farmer as they can not be passed onto consumers in a competitive global commodity grains industry.

1. **Concern with Submission to the Senate Inquiry**

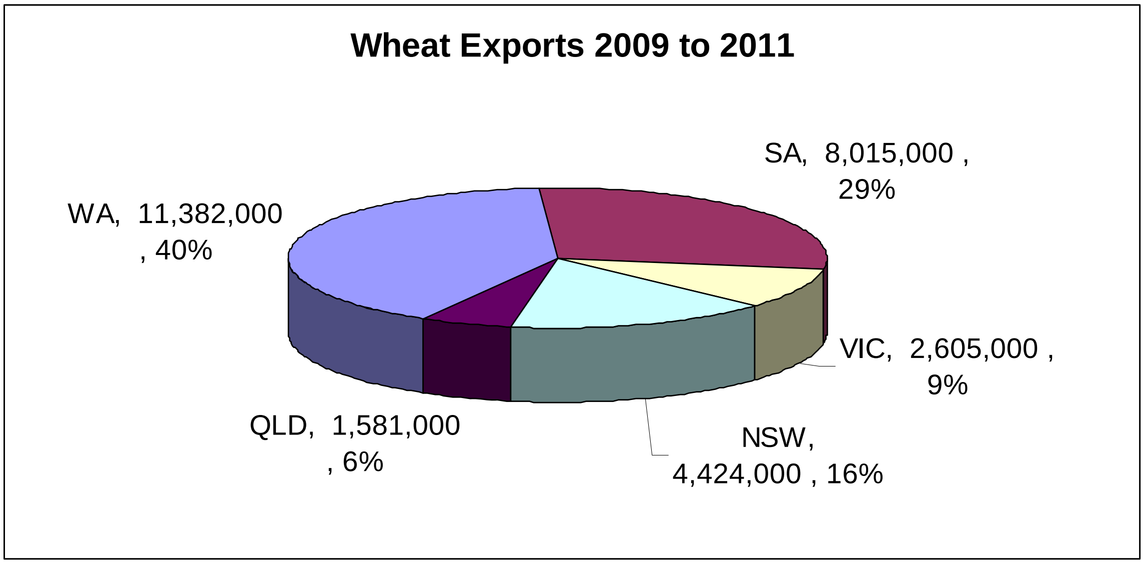
SAFF Grains Industry Committee is concerned with evidence given by Viterra Ltd in the Senate Standing Committees on Rural Affairs and Transport Operational Issues in Export Grain Networks Inquiry. In particular we refer to Hansard; page 62, third paragraph from the bottom, “Mr Gordon: The submission by SAFF to the select committee inquiry had to be overturned the next day because it was factually incorrect, so I would suggest you might want to check those figures.”

SAFF Grains Industry Committee does not believe the submission was overturned. The submission has not even been changed other than for additional information being provided in supporting the submissions.

2. South Australia is Highly Reliant on Grain Exports

Table 1 indicates South Australia is a major exporter of grain being the second largest state for wheat exports (behind WA) and twice as large as the third largest exporter New South Wales. South Australia and Western Australia have accounted for around 70% of all wheat exports in the past two years.

Chart 1. Cumulative Australian wheat exports by state; 2009 to 2011



Therefore grain supply chain issues in South Australia have a greater relevance to the prosperity of grain growers as well as the state.

Grain storage and handling in Western Australia is controlled by the monopoly grain handler CBH Grain a grower owned organisation.

Grain storage and handling in South Australia is controlled by the monopoly grain handler Viterra Ltd a wholly owned subsidiary of Viterra, a company listed on the Canadian stock exchange.

Recommendation

The South Australian government must develop rules around the grain supply chain to protect, and maximise returns growers and prosperity for the citizens of the state.

The South Australian government must impress upon the federal government the need to ensure a competitive and transparent supply chain in Australia.

3. Grain Growers Ability to Negotiate Fees Under WEA / ACCC Port Access Undertaking Legislative Framework

Federal legislation provides for a publish-negotiate-arbitrate system around port access fees negotiated with Bulk Handling Company (in SA, Viterra). This requires a process of Viterra publishing prices (reference prices), users negotiating in good faith, and the ACCC arbitrating on dispute/non resolution.

The Port Terminal Services Access Undertaking accepted from Viterra sets up a publish, negotiate, arbitrate framework with respect to the negotiation of access agreements. In order to enter into an access agreement, parties must first be an accredited wheat exporter.

The above process only applies to wheat.

The above process is not available to grain growers or grower groups as they are not accredited wheat exporters. Given that grain growers haven't exported or sold grain as individuals on a FOB basis (instead selling to buyers on a delivered silo basis), they are not in a contractual relationship with Viterra in regard to export fees. Therefore the grain grower can't negotiate the bulk handling fees under the WEA/ ACCC legislative framework. The grain grower will ultimately have these fees deducted from grain grower payments by the actual purchaser and exporter of the grain.

The exporter who has the ability to negotiate a lower fee may not pass on the benefits to the grower in the way of higher prices, preferring to retain that negotiation for the exporters benefit.

South Australian grain growers have seen an increase in storage and handling fees, which has significantly outstripped inflation over the past few years. Storage and handling fees have increased from around $25 per tonne in 2006/07 season to a projected $43 per tonne in 2011/12, an increase of $18 per tonne or 72%.

Grain growers have little to no capacity to negotiate these fees.

Recommendation

WEA and ACCC powers need to be expanded to allow for growers, who are the ultimate payers of all grain supply chain costs, to be able to negotiate and have ACCC arbitration of grain handling fee charges.

In the interim, ESCOSA should be empowered to control grain storage and handling fees, with input stakeholders, in particular grain growers.

4. Oversight of Grain Pools

Pools remain a popular tool for marketing grain, partly as a hangover from the single desk pooling operations of the past.

Grain pools handle significantly large amounts of equity and cash. Grain pools, however are exempt from the Australian and Financial Services Regulations (AFSR), due to a previous ruling regarding the national wheat pool.

Some 2010/11 wheat pools have seen a dramatic decrease in pool equity since harvest of that year. The decrease in pool equity for one pool has been approximately $90 per tonne to date. A decline of $90 per tonne for pool with say 3 million tonnes of grain is around $270 million from an original pool estimate of $1 billion Free on Board (based on an original estimate of $350 per tonne FOB).

Currently Wheat Exports Australia (WEA) has the ability to monitor and audit wheat pool performance. This provides oversight over wheat pools, to pursue inappropriate conduct. This protection is not afforded to other commodities currently or to wheat once WEA is wound up.

Recommendations

SAFFGIC recommends WEA retain and expand its powers on grain pools to cover all grains.

WEA must remain must continue to oversee grain pools.

SAFF GIC recommends grain pools come under AFSR legislation if WEA ends as intended September 2012.

5. Integrity of the Australian Grain Brand at Risk

There have been reports from overseas customers with concerns regarding the quality of grain imports from Australia.

Customer dissatisfaction has a direct and detrimental impact on grain growers in South Australia (given the reliance on grain exports) even if the imports have been received from another state.

Receival standards for growers have remained stringent for a number of years. Export standards have also remained relatively unchanged for sometime.

AQIS is chartered with monitoring the loading of vessels and issuing the Australian Phytosanitary certificates.

The Australian Phytosanitary certificate is used to certify that the Australian plants or plant products have been inspected according to appropriate procedures, and they are considered to be free from quarantine pests, practically free from other injurious pests, and conform with the current phytosanitary regulations of the importing country.

Grain quality assurance, which is the out turn of grain of the correct variety, specifications and weight, is reliant on the loader of vessels. There is a potential for bulk handlers who are also exporters, to blend grain to minimum specifications for competitor exporters while exporting higher than minimum to their own customers.

Recommendation

Running samples of receivals at bulk handling sites, be forwarded to an independent testing facility such as Grain Growers Limited (GGL) to provide a grain quality report that is feely available to customers. Costs incurred can be paid on a cost recovery basis.

Out turn of grain onto a vessel should be sampled and monitored by an independent agency (industry agreed – if not, then a government agency) to provide a reference point, right of dispute for importing customers.

The appointment of a “trouble shooter”, such as GGL, assist overseas customers with quality issues, identify and rectify problems.

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 Viterra in South Australia.

8. Access to Rail Freight

Prior to deregulation, AWB, ABB and Ausbulk would negotiate rail freight on behalf of growers and the trade.

Now Viterra negotiate rail freight in isolation with GWA. The results of those negotiations are not known (commercial in confidence). Viterra then “on charge” the rail freight, to all the users of the rail network, for grain purchases from Viterra sites.

Freight rates announce in October are used as the location differentials (LDs) the amount deducted from grain payments for up country delivery on port zone grain contracts. The LDs remain in place for the marketing year. However the freight charged by Viterra can increase through the year. This can result in buyers of grain discounting their price at purchase time, to allow for potential hikes in freight charges.

Grain buyers have indicated a willingness to be a part of the freight negotiations and take on some of the risk associated with GWA providing rail access and rolling stock.

Recommendation

Rail access for grain should be under the control of ESCOSA
Rail access charges should be publicly listed to enable transparency for industry stakeholders

9. Road Access

Access for B Double configurations, and in some areas Road Trains, is limited by infrastructure and local government policy.

Road trains and B Double configurations provide a more efficient method of grain transport by transporting grain further with less vehicle units on the road.

Road access from the road train routes to strategic sites must be improved.

Recommendation

The state government grant B Double configurations access to all roads in South Australia, and that councils then select roads to opt out (as opposed the current system of opt in for these configurations).

Access issues be identified by a working party and prioritised for action.

Appendix

ABB/Viterra FOB CHANGES

These are the costs the buyers are charged that are ultimately paid by the grower as tal Assumptions
Schedule A ABB/Viterra 06/07,07/08,08/09,09/10,10/11,11/12 Storage and Handling Charges.

Harvest Shipment January

	0607 per tonne	0708 per tonne	Change	08/09 per tonne	Change	09/10 per tonne	Change	10/11 per tonne	Change	100,000 tonne Client Delivered Nov Outer Harbour 11/12 per tonne	Change	
Up-country Charges												
Annual Account Fee 100,000 tonne	$ -	$ 0.25	$ 0.25	$ 0.25	$ -	$ -	-$ 0.25	$ -	$ -	$ -	$ -	
Receival Fee	$ 7.35	$ 7.50	$ 0.15	$ 7.90	$ 0.40	$ 10.60	$ 2.70	$ 10.70	$ 0.10	$ 11.20	$ 0.50	
Storage and Seg Fee	$ 2.10	$ 1.85	-$ 0.25	$ 1.95	$ 0.10	$ -	-$ 1.95	$ -	$ -	$ -	$ -	
Variable Storage Charges (Carry Jan)	$ -	$ 0.60	$ 0.60	$ 0.80	$ 0.20	$ 1.10	$ 0.30	$ 1.40	$ 0.30	$ 1.90	$ 0.50	
Shrinkage at 0.5% v 0.6% on $300 product	$ 1.50	$ 1.80	$ 0.30	$ 1.80	$ -	$ 1.80	$ -	$ 1.80	$ -	$ 1.80	$ -	
Out-turn Fee	$ 1.77	$ 2.00	$ 0.23	$ 2.10	$ 0.10	$ 2.10	$ -	$ 2.35	$ 0.25	$ 2.45	$ 0.10	
Stock transfers ex client or warehouser	$ 0.10	$ 0.25	$ 0.15	$ 0.25	$ -	$ 0.25	$ -	$ 0.25	$ -	$ 0.20	-$ 0.05	
Transport Recovery Charge	$ -	$ -	$ -	$ 0.75	$ 0.75	$ -	-$ 0.75	$ -	$ -	$ -	$ -	
Volume Variation Factor	$ -	$ 1.00	$ 1.00	$ 1.00	$ -	$ -	-$ 1.00	$ -	$ -	$ -	$ -	
	$ 12.82	**$ 15.25**	**$ 2.43**	**$ 16.80**	**$ 1.55**	**$ 15.85**	**-$ 0.95**	**$ 16.50**	**$ 0.65**	**$ 17.55**	**$ 1.05**	
Port Charges												
Port In-Loading Fee	$ 1.75	$ 2.65	$ 0.90	$ 2.80	$ 0.15	$ 2.80	$ -	$ 2.80	$ -	$ 3.30	$ 0.50	
Port Handling	$ 6.70	$ 7.65	$ 0.95	$ 10.85	$ 3.20	$ 11.20	$ 0.35	$ 11.85	$ 0.65	$ 12.65	$ 0.80	
Ship Loading Fee	$ 1.85	$ 2.00	$ 0.15	$ 2.10	$ 0.10	$ -	-$ 2.10	$ -	$ -	$ -	$ -	
Blending Fee	$ 0.65	$ 0.80	$ 0.15		-$ 0.80		$ -		$ -		$ -	
Sampling Fee	$ -	$ 0.15	$ 0.15		-$ 0.15		$ -		$ -		$ -	
Ship Loading Efficiency	$ -	$ 1.00	$ 1.00		-$ 1.00		$ -		$ -		$ -	
Harvest Shipment Fee	$ -	$ 1.50	$ 1.50	$ 1.60	$ 0.10	$ -	-$ 1.60	$ -	$ -	$ -	$ -	
Site Assembly Fee - B & C Sites	$ -	$ 1.20	$ 1.20		-$ 1.20		$ -		$ -		$ -	
Volume Variation Factors Port Handling	$ -	$ 1.00	$ 1.00	$ 1.00	$ -	$ -	-$ 1.00	$ -	$ -	$ -	$ -	
Vessel Nomination/Booking Fee	$ -	$ -	$ -	$ -	$ -	$ 5.00	$ 5.00	$ 5.00	$ -	$ 5.00	$ -	
Shipping Shrinkage re Dust @ 0.1%	$ -	$ -	$ -	$ 0.25	$ 0.25	$ 0.25	$ -	$ 0.25	$ -	$ 0.25	$ -	
	$ 10.95	**$ 17.95**	**$ 7.00**	**$ 18.60**	**$ 0.65**	**$ 19.25**	**$ 0.65**	**$ 19.90**	**$ 0.65**	**$ 21.20**	**$ 1.30**	
					$ -		$ -		$ -		$ -	
Total Costs to FOB	**$ 23.77**	**$ 33.20**	**$ 9.43 ##**	**$ 35.40**	**$ 2.20 #**	**$ 35.10**	**-$ 0.30 #**	**$ 36.40**	**$ 1.30 #**	**$ 38.75**	**$ 2.35**	**6.46%**

Shipment July

	0607 per tonne	0708 per tonne	Change	08/09 per tonn	Change	09/10 per tonn	Change	10/11 per tonn	Change	11/12 per tonne	Change	
Up-country Charges												
Annual Account Fee 100,000 tonne	$ -	$ 0.25	$ 0.25	$ 0.25	$ -	$ -	-$ 0.25	$ -	$ -	$ -	$ -	
Receival Fee	$ 7.35	$ 7.50	$ 0.15	$ 7.90	$ 0.40	$ 10.60	$ 2.70	$ 10.70	$ 0.10	$ 11.20	$ 0.50	
Storage and Seg Fee	$ 2.10	$ 1.85	-$ 0.25	$ 1.95	$ 0.10	$ -	-$ 1.95	$ -	$ -	$ -	$ -	
Variable Storage Charges (Carry Jul)	$ 1.80	$ 2.65	$ 0.85	$ 3.45	$ 0.80	$ 4.75	$ 1.30	$ 6.50	$ 1.75	$ 8.50	$ 2.00	
Shrinkage at 0.6% on $300 product	$ 1.50	$ 1.80	$ 0.30	$ 1.80	$ -	$ 1.80	$ -	$ 1.80	$ -	$ 1.80	$ -	
Out-turn Fee	$ 1.77	$ 2.00	$ 0.23	$ 2.10	$ 0.10	$ 2.10	$ -	$ 2.35	$ 0.25	$ 2.45	$ 0.10	
Stock transfers ex client or warehouser	$ 0.10	$ 0.25	$ 0.15	$ 0.25	$ -	$ 0.25	$ -	$ 0.25	$ -	$ 0.20	-$ 0.05	
Transport Recovery Charge	$ -	$ -	$ -	$ 0.75	$ 0.75	$ -	-$ 0.75	$ -	$ -	$ -	$ -	
Volume Variation Factor	$ -	$ 1.00	$ 1.00	$ 1.00	$ -	$ -	-$ 1.00	$ -	$ -	$ -	$ -	
	$ 14.62	**$ 17.30**	**$ 2.68**	**$ 19.45**	**$ 2.15**	**$ 19.50**	**$ 0.05**	**$ 21.60**	**$ 2.10**	**$ 24.15**	**$ 2.55**	
Port Charges												
Port In-Loading Fee	$ 1.75	$ 2.65	$ 0.90	$ 2.80	$ 0.15	$ 2.80	$ -	$ 2.80	$ -	$ 3.30	$ 0.50	
Port Handling	$ 6.70	$ 7.65	$ 0.95	$ 10.85	$ 3.20	$ 11.20	$ 0.35	$ 10.55	-$ 0.65	$ 11.25	$ 0.70	
Ship Loading Fee	$ 1.85	$ 2.00	$ 0.15	$ 2.10	$ 0.10	$ -	-$ 2.10	$ -	$ -	$ -	$ -	
Blending Fee	$ 0.65	$ 0.80	$ 0.15		-$ 0.80		$ -		$ -		$ -	
Sampling Fee	$ -	$ 0.15	$ 0.15		-$ 0.15		$ -		$ -		$ -	
Ship Loading Efficiency	$ -	$ 1.00	$ 1.00		-$ 1.00		$ -		$ -		$ -	
Harvest Shipment Fee	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	
Site Assembly Fee - B & C Sites	$ -	$ 1.20	$ 1.20		-$ 1.20		$ -		$ -		$ -	
Volume Variation Factors Port Handling	$ -	$ 1.00	$ 1.00	$ 1.00	$ -	$ -	-$ 1.00	$ -	$ -	$ -	$ -	
Vessel Nomination/Booking Fee	$ -	$ -	$ -	$ -	$ -	$ 5.00	$ 5.00	$ 5.00	$ -	$ 5.00	$ -	
Shipping Shrinkage re Dust @ 0.1%	$ -	$ -	$ -	$ 0.25	$ 0.25	$ 0.25	$ -	$ 0.25	$ -	$ 0.25	$ -	
	$ 10.95	**$ 16.45**	**$ 5.50**	**$ 17.00**	**$ 0.55**	**$ 19.25**	**$ 2.25**	**$ 18.60**	**-$ 0.65**	**$ 19.80**	**$ 1.20**	
					$ -		$ -		$ -		$ -	
Total Costs to FOB	**$ 25.57**	**$ 33.75**	**$ 8.18 ##**	**$ 36.45**	**$ 2.70 #**	**$ 38.75**	**$ 2.30 #**	**$ 40.20**	**$ 1.45 #**	**$ 43.95**	**$ 3.75**	**9.33%**

Barrier to Competitor Storage and Handling

In South Australia there are only a handful of "Approved Third Party" storage providers. They account for around 500, to 600,000 tonnes of capacity, whereas Viterra has a capacity in excess of 10 million tonnes.

Deliveries from Approved Third Party Bulk Handlers are charged additional fees to delivers through the Viterra port system. There is no other way of loading bulk vessels in South Australia. These fees include; port in loading fee ($2.20 per tonne rail $3.40 per tonne road), receival at port service fee ($2.50 per tonne wheat and feed barley, $3.80 per tonne for malt barley and POA for pulses) and shrinkage (0.25% cereals, 0.5% pulses) equating to approximately $7.00 per tonne for wheat delivered by road.

Barrier to Farmer Storage and Handling

Over the past few years grain growers have made significant investments in on farm storage, predominately to assist with harvest logistics and capacity, as delays to harvest can result in reduced quality to grain caused by weather events, as was the case in 2010/11.

Capital costs to build permanent grain storage on farm range from $100 to more than $200 per tonne. Annual facility costs range from $20 to $30 per tonne. This is an additional cost burden to the grower as grain exported by ship is still required to go through the Viterra bulk handling system for loading, where costs ranging from $17 to $20 per tonne are incurred for receival, shrinkage and out turn.

A limited number of South Australian farmers (due to freight distances) can deliver direct off farm for delivery to port terminals in Victoria. Access to these terminals are ABA $5.50 per tonne and GrainCorp $9.05 per tonne (source: ACCC)

These Non Approved Third Party Bulk Handlers may have obtained or are seeking ISO9001 Quality Accreditation.

South Australian farmers produce some of the best quality grain in the world, using innovative and efficient production techniques. South Australian farmers are also capable of storing grain using world's best practise if there were an incentive to do so.