South Australian Farmers Federation Grains Industry Committee; Supplementary Submission to the Senate Standing Committees on Rural Affairs and Transport Operational Issues in Export Grain Networks Inquiry; August 2011

Key Points

Competition in the bulk storage of grain has been stifled in South Australia. Changes to the export arrangements for wheat and barley through changes to federal and state legislation, has not flowed through to improved competition in the receival, classification, storage and export of grain from South Australia.

The South Australian bulk grain storage and handling market is controlled by Viterra Ltd. The company owns over 90% of the grain storage capacity in South Australia and all bulk vessel shipments of grain must be processed through their ship loading facilities.

Fees and charges inhibit competitor activity and act as a barrier to the entry of new grain handling competitors. Freight and transport arrangements are inefficient and restrictive to third party arrangements.

Policies and procedures in the classification, receival and segregation of grain significantly affect grain growers' incomes due to price variations between grades. Stakeholders are precluded from information that would enable improved pricing efficiency and industry services.

The SAFF Grains Industry Committee (SAFFGIC) recommends:

- The abolition of anti-competitive third party access charges.
- That equitable access to load bulk vessels to all competitor storage and handling sites.
- Equitable access to all rail infrastructure in South Australia.
- Changes to the management of the shipping stem to promote fair and equitable access to shipments grain and that the process be standardised nationally
- Open and transparent Information on commodity, grade, quality and tonnage of grain (per cell / bunker) be made available to stakeholders in real time and at no cost
- 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 at no cost.
- Improving sampling and assessment procedures to ensure the accurate and transparent classification and storage of grain
- Improved efficiency, staff and customer amenities and safety at grain receival sites
- Improvements to transport infrastructure in South Australia to enhance the efficiency, cost effectiveness and safety of commodity transport

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.

Monopoly Control

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.

Increased Fees and Charges

In the six months to April 30 2011 Viterra Ltd has generated $179.8 million EBITDA from it's Australian Grain Handling and Marketing segment on the back of a 10.3 million tonne crop up from $86.2 million for the same period in 2010 (7.8 million tonne crop).

On a consolidated basis, the year-to-date pipeline margin per tonne was $32.79 compared to $25.74 last year an increase of 27%. In South Australia, quarterly margins benefited from:

- high volumes
- increased storage and handling fees
- as well as solid blending contributions and
- domestic merchandising margins.

Viterra's consolidated gross margin per tonne is expected to grow throughout the remaining quarters as its Australian operations earn more storage, shipping and merchandising revenue. The Company confirms its global pipeline margin guidance to be in the $33 to $36 per tonne range for the fiscal year.
(Source: Viterra)

Blending contributions refers to the practise of blending grains of different qualities and therefore values, to create a combined grain value of a greater value than the original. For example:

Table 1: Effect of grain blending to increase gross value

	Grade	Value	Tonnes	Total Value
Original Quality	AGP	$ 260	100,000	$ 26,000,000
	FEED	$ 190	30,000	$ 5,700,000
				$ 31,700,000
Blended Quality	AGP	$ 260	130,000	$ 33,800,000
			Increased Value	$ 2,100,000
			Increased Value per tonne	$ 16

This goes to the heart of Viterra's choice to use visual assessment of grain at harvest in assessing grain quality being delivered into their system.

The possibility exists for grain to be incorrectly downgraded, with the farmer being paid a lower price, to then be able to out turn that grain at a higher grade and value, to the advantage of the storage and handling provider.

SAFFGIC refers to its original submission regarding the classification and storage of grain in South Australia.

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.

SAFFGIC refers to its original submission in that;

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.

New Ports Unlikely Solution

Estimates to build grain handling facilities at a new port, range from $50 to $100 million. No new ports have been developed in the past 40 years other than Outer Harbour, with volumes through smaller capacity ports declining due to their inability to fully load larger vessels. Dredging of Outer Harbour has allowed for larger vessels to be fully loaded and a new terminal was commissioned in 2009/10 at this location.

Due to the South Australia's geographical layout in relationship to the number of tonnes exported per port, it is unlikely that a new port for grain export would be developed by competitors to Viterra. This is due to a number of issues including, existing rail infrastructure being controlled by Genesse and Wyoming Australia (GWA) which has a long term rail freight arrangement with Viterra. New port facilities would require either equal access to these freight arrangements or the construction of new road or rail infrastructure.

Viterra, and Ausbulk in the past, have the ability to ship a South Australian annual crop harvest of around 10 million tonnes over a twelve month period. (Viterra press release 23 August 2011) More efficient and cost effective use of existing infrastructure, would be a better use of capital rather building new infrastructure.

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 (0.35% 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.

Table 1 Changes to Core Charges and Approved Third Party Fees 2006/07 to 2010/11

Core Charges

Viterra Service	Fee or Charge ($/t)							
	Viterra Up-Country Sites						Third Party	
	2006/07		**2007/08**		**2010/11**		**2010/11**	
Up-Country Charges								
Receival Fee and Storage Fee	$	7.35	$	7.50	$	10.70		
Storage and Seggregation Fee	$	2.10	$	1.85	$	-		
Carry until Feb	$	0.30	$	0.60	$	0.70		
Carry until Jul	$	1.80	$	2.35	$	4.80		
Shrinkage on $350 of product	$	1.75	$	2.10	$	2.10		
Road Rail Outloading Fee	$	1.77	$	2.00	$	2.35		
Volume Variation	$	-	$	1.00	$	-		
Total Up-Country Charges (Carry Feb)	**$**	**13.27**	**$**	**15.05**	**$**	**15.85**		
Total Up-Country Charges (Carry Jul)	**$**	**14.77**	**$**	**16.80**	**$**	**19.95**		
Port Charges								
Port In-Load Fee * #	$	1.75	$	2.54	$	2.68	$	3.40
Receival at Port Service Fee (ex third party)							$	2.50
Shrinkage on $350 of product (0.35%)							$	1.23
Port Handling and Shipping Fee (Feb)	$	6.70	$	7.65	$	11.00	$	11.00
Port Handling and Shipping Fee (Jul)	$	6.70	$	7.65	$	12.30	$	12.30
Ship Loading Fee	$	1.85	$	2.00	$	-		
Blending Fee	$	0.65	$	0.80	POA			
Volume Variation	$	-	$	1.00	$	-		
Ship Sampling Fee	$	0.13	$	0.15	$	-		
Dust					$	0.35	$	0.35
Export Select Rebate (Feb)					-$	1.95		0
Export Select Rebate (Jul)					-$	1.25		0
Total Port Charges (Carry Feb)	**$**	**11.08**	**$**	**14.14**	**$**	**12.08**	**$**	**18.48**
Total Port Charges (Carry July)	**$**	**11.08**	**$**	**14.14**	**$**	**14.08**	**$**	**19.78**
Total Charges (Carry Feb)	**$**	**24.35**	**$**	**29.19**	**$**	**27.93**		
Total Charges (Carry Jul)	**$**	**25.85**	**$**	**30.94**	**$**	**34.03**		

Assumptions

Feed Barley Port Adelaide $350 per tonne

* Based on use of rail (60%) and road (40%)

Based on road (100%) for third party

Source: ABB / Viterra and Econsearch