SOUTH AUSTRALIAN FARMERS FEDERATION

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12 May 2011

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

Dear Sir

On behalf of the South Australian Farmers Federation Grains Industry Committee (SAFF Grains), I am forwarding a submission to the Senate Standing Committees on Rural Affairs and Transport Operational Issues in Export Grain Networks Inquiry; May 2011.

The submission highlights the:

- Monopoly control of Viterra over South Australia's grain storage, handling and shipping facilities.
- The misuse of market power and commercial practises undertaken by Viterra to preclude the entry and development of competitor activity.
- The restraint of market information that would provide for efficient and transparent pricing of grains in South Australia
- Commercial practises undertaken by Viterra that have reduced grain growers' incomes with little recourse for resolution or compensation
- Inadequate supply of grain sampling, classification, storage, handling and exporting of grain services by Viterra to stakeholders in the South Australian grain industry.

Representatives from the Committee are willing to meet with the Select Committee to clarify points made and discuss their concerns further.

Yours faithfully

Michael Schaefer
CHAIRMAN, SAFF GRAINS INDUSTRY COMMITTEE

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

Contents

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 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

The South Australian grains industry has an average turnover of over $2 billion (2005-2009) and is a multibillion dollar investment 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, 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.

In recent years the grains industry has moved from a regulated single desk marketing environment of 60 years, to a deregulated domestic and export market. The export of bulk wheat is still overseen by Wheat Exports Australia (WEA) and barley by the Essential Services Commission of South Australia (ESCOSA) ceased on 30 June 2010.

During the time of regulation, the classification, storage, transport and out turn of grain for export and domestic markets, was controlled by South Australian Co-operative Bulk Handing Ltd (SACBH). In 2000 this entity changed from a membership-based organisation to a company limited by shares, with the formation of a new holding company United Growers Holding (UGH) and a change of name to AusBulk. In 2004, ABB Grain Ltd (ASX listed company) merged with AusBulk by schemes of arrangement. In 2009 the Canadian company Viterra purchased ABB Grain Ltd.

In effect, the monopoly of the grain handling system has transferred from a co-operative invested with the role to benefit growers and the grains industry, through to various publicly listed companies accountable to shareholders. The responsibilities as custodians of the South Australian grains industry to supply quality grain in a low cost and efficient manner has diminished, as the needs for profit and return to shareholders has taken over. This is highlighted in the amount spent annually on repairs and maintenance has declined from $46 million in 2005 and $36 million in 2006 to $8 million in 2009 under the public company.
The monopoly storage and handling entity has also merged with a grain trading company. This new entity has the ability to use market information, segregation and transport processes, which is exclusive to other trading entities and a barrier to the entry of new storage and handling operators.

Monopoly Power

With 9.5 million tonnes of capacity, Viterra Ltd has a virtual monopoly control of approximately 90% of the grain storage facilities in South Australia. The other major bulk grain storage facilities are owned by GrainFlow 400,000t, Australian Growers Direct 100,000t, EP Grain Storage 100,000t, Australia Milling Group 100,000 t, CK Tremlett 35,000 tonnes with several other operators also providing bulk storage.

Grain is exported from South Australia on bulk vessels ranging from 10,000 to over 60,000 tonne capacity. Vessels are loaded at ports owned by the State government and managed by Flinders Corporation (except for the port at Ardrossan). These ports are located at Thevenard, Port Lincoln, Wallaroo, Port Giles, Port Pirie and Outer Harbour and Port Adelaide (Inner Harbour). Viterra owns the storage and loading facilities at these ports (plus Ardrossan) and also manages the shipping stem. Viterra has a monopoly control over the port storage and handling facilities and the shipping stem.

Table 1, shows that Viterra has a monopoly on the loading of grain vessels in South Australia. Viterra may not be the owner of the grain; however they are the storer, handler and loader of all bulk shipments from South Australian ports.

Table 1:
Viterra Monthly Grain Exports 2010; South Australia All Ports (tonnes)

January	February	March	April	May	June
251,744	387,880	398,071	549,477	662,446	459,834
July	August	September	October	November	December
503,374	669,514	408,567	535,848	441,700	555,608

Total Shipments Calander 2010		5,824,063
Total Grain Production 2009/10		7,833,400
Less Seed ^		280,000
Less Domestic Use:	Wheat	480,000
	Barley	600,000
Less Container Shipments *		n.a.
Plus: Carry In Stocks #		n.a.
Less: Carry Out Stocks #		n.a.
Stocks Available For Bulk Export		6,473,400
Percentage of 2009/10 Grain Production Exported Through Viterra		90%

Source: Viterra, PIRSA, WEA
* Does not include container exports and
domestic consumption of grain other than wheat and barley
Allowance not made for carry over of stocks
from 2009/10 lower than carry over stocks for 2010/11

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.

Table 2:
Grain Shipments by Port 2009/10 (Source: Viterra)

Port	**Tonnage (t)**
Outer Harbour	569,413
Port Adelaide (Inner Harbour)	1,172,682
Port Giles	418,907
Port Lincoln	1,826,101
Thevenard	240,036
Wallaroo	539,112
Total	**4,766,251**

Table 3, indicates grain production in South Australian varies significantly from year to year due to climatic conditions.

Table 3:
Total crop Production South Australia 1999/2011 to 2010/11 (source:PIRSA)

Year	**1999/2000**	**2000/01**	**2001/02**	**2002/03**	**2003/04**	**5yr Av**	**2004/05**
Area (ha)	3,297,000	3,555,700	3,756,100	3,666,800	3,792,900	3,613,700	3,777,200
Production (t)	4,866,600	7,399,500	9,363,600	3,902,000	7,275,900	6,561,500	5,257,600

Year	**2005/06**	**2006/07**	**2007/08**	**2008/09**	**2009/10**	**5yr Av**	**2010/11**
Area (ha)	3,877,500	3,960,900	4,110,600	4,008,500	4,024,700	3,993,400	4,023,000
Production (t)	7,537,400	2,916,600	4,879,900	4,930,000	7,833,400	5,619,500	10,341,400

There has been a slight increase in the area planted to grain crops since 1999/2000 and some small yield increases due to improved agronomics. Total grain production has increased since 1999/2000, however existing bulk storage capacity should be adequate to handle the South Australian grain harvest. Duplication of grain storage would be seen to be an inefficient use of capital.

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 (see Appendix). 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.

South Australia may need some increase in total storage; however more cost effective outcomes would be achieved through greater efficiencies of existing facilities.

Competitor Grain Handlers and Barriers to Export

There are a number of bulk handlers (other than Viterra) in South Australia who receive grain from grain growers. Some are classified by Viterra as Approved Third Party Store. It is understood these are GrainFlow, EP Grain Storage and CK Tremlett, however there may be others.

Viterra's definition of an Approved Third Party Store is *A non-Company grain storage and handling facility which meets published standards as determined by the company*. The standards were recently published and are available on the Viterra website.

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. An example of the fees is shown in Table 3.

Table 4: Comparison of Viterra Port Charges

Viterra Service	Fee or Charge ($/t)							
	Viterra Up-Country Sites						Third Party	
	2006/07		**2007/08**		**2010/11**		**2010/11**	
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**

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

Third Party Bulk Handlers are also disadvantages as they are not eligible for the Export Select Rebate which is paid on outrun from Viterra upcountry sites. Export Select Rebates are a “reward” for efficient grain movements. Sites excluded from the Export Select Rebate include GrainFlow sites at Crystal Brook and Mallala which both are equipped with rail balloon loops for rail out-turn and have a capacity to load approximately 2,500 tonnes per hour, which is considerably faster than many Viterra sites which qualify for the Export Select Rebate.

Rail access to Viterra export sites is limited to Approved Third Party Bulk Handlers due to the long term arrangements between the major rail operator Genesse and Wyoming Australia (GWA) and Viterra. Road transport is the predominate mode of delivery from Approved Third Parties.

GWA have an arrangement to manage both the above rail (rolling stock) and below rail (track) of most of the rail systems in South Australia. This is different to other states, where the track is maintained by a separate entity to the lessee, such as ARTC who maintain the Melbourne to Adelaide and Adelaide to Darwin lines. Third Parties have found where they have wanted access to run their own rolling stock, the cost per km of access to GWA managed lines such as Tailem Bend to Pinnaroo, to be significantly higher (tenfold) compared to ARTC managed lines Keith to Adelaide. Hence rail out turn from the GrainFlow sites at Crystal Brook (ARTC line) versus road outturn from GrainFlow site at Pinnaroo (GWA line) (See Appendix; Wheat Export Marketing Arrangements; SAFF Grains Committee Submission; April 2010)

Also GWA may charge “pilot” fees for trains using a section of the Inner Harbour line. Sometimes a pilot may be unavailable when required by the Approved Third Party and trains may be delayed until one is available.

Viterra also manages the scheduling of rail delivery to their port terminals. Third Party deliveries by rail may be delayed if Viterra are requiring the facilities at the same time.

Port in-loading fees for third parties in Victoria are $1.54 per tonne through Graincorp facilities and $0 to $0.50 per tonne through the ABA port facility at Port Melbourne.

A charge or $2.50 per tonne for wheat is seen as excessive. The charge of $3.80 per tonne for Malt Barley is definitely restrictive to third parties receiving this grade, and results in very few third parties receiving Malt Barley in competition to Viterra who have a monopoly on malt processing in South Australia. Prior to the merger of ABB Grain and Ausbulk, which owned the malt house, ABB Grain purchased considerable tonnes of malt barley at GrainFlow sites in South Australia, as these sites provided competition to the AusBulk system.

Malt Barley prices in South Australia became less competitive, when compared to Victoria, after the merger of ABB grain and AusBulk.

The port in-loading fee is considered to be charged as Viterra stands risk from deliveries from third parties, including pesticide residue and live insects. All GrainFlow sites in South Australia (and Australia) comply with ISO9001 standards. A quality Management System is used and independently audited to ensure compliance. Viterra port terminals also comply with this standard, however many of their up-country sites do not.

It could be argued that GrainFlow sites have less inherent risk due to independently audited processes and procedures compared to some up-country Viterra sites and therefore GrainFlow should be charged a lower fee.

The shrinkage fee of 0.35% on Third Party deliveries equates to around $1.05 per tonne on cereals with a value of $300 per tonne. It also equates to 35 tonnes “lost” on a 10,000 tonne rail shipment, or 1 in every 280 rail cars.

These fees need to be absorbed by the third party bulk handler or passed back to the grower through lower pricing. There are a number of grain buyers who are absent from competitor grain storage sites due to the additional charges. Some competitor grain storage sites do subsidies traders to entice them to price at their site as a lack of traders can mean lack of support by grain growers.

These fees are inhibitive to the development of grain storage facilities by competitors. Growers are disadvantages as the costs are passed back to the grower through lower pricing or lack of buyers.

Growers are unable to deliver as Approved Third Party Store unless they are approved by Viterra. There are no Third Party Store Approved growers and therefore growers with on farm storage wishing to export, incur the full range of receival fees as if they had delivered at harvest.

Recommendation

That equitable access to load bulk vessels to all competitor storage and handling sites.

The removal of anti-competitive third party charges.

Equitable access to all rail infrastructure in South Australia.

Open, transparent and published information on all rail access charges.

Fees and Charges

A Volume Variation Factor fee was introduced in the 2007/08 season by ABB Grain. This factor provides for a fee to be charges in below average seasons for underutilisation of ABB Grain's infrastructure or a deduction in fees in above average seasons. This fee is charged up country and based on grain receivals.

Therefore a fee was charged in below average years and refunded in above average years.

This fee was charged at a rate of $1.00 per tonne for both the 2007/08 season and again in season 2008/09, as both seasons were below average. In the 2009/10 season the fee was discontinued. If the fee had continued to be in place a rebate of $0.50 per tonne should have been return to users of the Viterra system. This would equate to around $3.5 million and $5 million in the 2009/10 and 2010/11 seasons respectively.

Table 5:
Total crop Production South Australia 1999/2011 to 2010/11 (source:PIRSA)

Year	1999/2000	2000/01	2001/02	2002/03	2003/04	5yr Av	2004/05
Area (ha)	3,297,000	3,555,700	3,756,100	3,666,800	3,792,900	3,613,700	3,777,200
Production (t)	4,866,600	7,399,500	9,363,600	3,902,000	7,275,900	6,561,500	5,257,600

Year	2005/06	2006/07	2007/08	2008/09	2009/10	5yr Av	2010/11
Area (ha)	3,877,500	3,960,900	4,110,600	4,008,500	4,024,700	3,993,400	4,023,000
Production (t)	7,537,400	2,916,600	4,879,900	4,930,000	7,833,400	5,619,500	10,341,400

Table 6, below indicates the increase in core charges from 2006/07 to 2010/11 season. It relates to core charges for grain received at Viterra Sites and compares to receivals from a third party. The table does not include non core charges which are difficult to quantify.

Non core charges for 2010/11 season include:

- Vessel Booking Fee
- Late Vessel Nomination Fee
- Vessel Variation and Ship Repositioning Fee
- Minimum Cargo Lift Fee
- Rail Weighing Fee
- Special Blending Fee
- Road Underperformance Fee
- Administration Fees

Table 6: 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

Carry charges a major source of revenue. Table 1 indicates that approximately half of grain exported is exported by July of that year. Carry charges are higher later in the calendar year, increasing from $0.70 per month from Harvest to April, to $3.00 per month in September.

Freight Inefficiencies

Viterra establishes Export Select Freight Rates (ESFR) for their receival sites in South Australia. This is the fee to be paid by the buyer to freight grain via their logistics network to the terminal port.

For example the ESFR for Port Pirie Viterra site is $16.07 per tonne off Port Adelaide and Outer Harbour site. Therefore grain growers with a Port Adelaide zone grain contract for say $300 per tonne, receive $283.93 per tonne for deliveries Port Pirie.

Grain Trade Australia (GTA) determines the Location Differentials (LD's) for their members in Australia. Location Differentials are not freight rates, they are the site deduction used in pricing Track contracts. The Australian Securities Exchange (ASX) uses GTA LD's for their exchanges traded grain contracts. The LD's are established for all recognised bulk handlers.

In New South Wales and Victoria the LD's are established using a formula based on effectively a per kilometre rate which for the 2010/11 season is around $0.10 to $0.11 per km. For example Graincorp Birchip's site in Victoria LD is $31.75 for Geelong being 309km from Geelong equating to $0.1028 per km.
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In South Australia GTA accepts Viterra's ESFR as the LD's for the state due to the monopoly on exports, freight and storage. Viterra releases ESFR around 1 October of the growing season, which can be very close to harvest, giving the trade little time to review the rates. ESFR were recently increased in April 2011.

The ESFR for Viterra Wudinna is $21.73 per tonne 212km from Port Lincoln equating to $0.1025 per km.

The ESFR for Viterra Keith is $29.56 per tonne 240km from Port Adelaide equating to $0.1232 per km.

The ESFR for Viterra Lameroo is $27.90 per tonne 215km from Port Adelaide equating to $0.1298 per km.

The ESFR for Viterra Gladstone is $19.52 per tonne 213km from Port Adelaide equating to $0.0916 per km.

The ESFR for Viterra Crystal Brook is $16.04 per tonne 195km from Port Adelaide equating to $0.082 per km. Viterra Port Pirie, which is an additional 26km further from Port Adelaide, has an ESFR of $16.07 per tonne equating to $0.073 per km. This is a disincentive for growers from the Mid and Upper North to deliver south of Port Pirie to say GrainFlow Crystal Brook, as there is no freight advantage.

It is likely that non-Viterra bulk handling sites would have LD's similar to nearby sites to be cost effective to grower pricing. Both Grainflow Crystal Brook and Viterra Crystal Brook have an LD of $15.28 per tonne.

Grain buyers can elect to transport grain under their own transport arrangements or use the Viterra's logistics. Where the ESFR rate per km is high then grain buyers would be more likely to use their own freight and logistics. Where it is lower, they would more likely use the Export Select service. Grain exporters buying at non-Viterra bulk handling sites with low LD's are purchasing based on tighter freight costs and therefore lower margins.

Table 7 shows the GTA LD's for various sites on the Eyre Peninsula. The rate per kilometre is lower where there is competition between a Viterra site (Rudall) and a competitor site (EP Grain Taragoro), compared to other sites.

Table 7:
GTA Location Differentials for Various Sites (Eyre Peninsula)

Site	LD	km	$/km
Arno Bay	11.11	116	0.096
Kimba	19.55	211	0.093
Kyancutta	20.48	198	0.103
Lock	14.41	144	0.100
Minnipa	26.9	249	0.108
Rudall	**12.68**	**145**	**0.087**
Streaky Bay	26.22	293	0.089
Taragoro (EP Storage)	**10.7**	**136**	**0.079**
Wharminda	12.38	98	0.126
Wudinna	20.44	212	0.096

Source: GTA

Freight Inefficiency

The pricing and terms of conditions for contractors providing transport for Viterra would be commercial in confidence.

It is understood that pricing for silo to silo freight on the Eyre Peninsula by road is around $2.10 per km. Cost therefore for road train freight from Wudinna to Port Lincoln (212km) would equate to:

212km x 2 (return) x $2.10 per tonne = $848 divided by 55 tonnes = $16.20 per tonne.

The ESFR set by Viterra for Wudinna is $21.73 per tonne which is a mark up of 34%.

Some growers on the Eyre Peninsula run their own transport including road trains, while other growers contract transport operators to freight grain to Viterra Sites. It became apparent in both 2009/10 2010/11 seasons that the ESFR for upcountry delivery were inefficient and therefore growers would be advantaged by arranging their own freight to the Port Lincoln Terminal.

With an increase in the number of trucks at Port Lincoln creating congestion, Viterra implemented a strategy of limiting deliveries to the Port Lincoln Terminal to grower located south of the Tumby Bay to Cummins road and an extension of that line to Mt Hope. This resulted in the inequitable situation of growers north of that line, having to deliver to Viterra sites upcountry and therefore forced to accept the more expensive ESFR for that site, than could be achieved through their own arrangements.

Recommendation

That equitable access to load bulk vessels to all competitor storage and handling sites.

The removal of anti-competitive third party charges.

Equitable access to all rail infrastructure in South Australia.

Open, transparent and published information on all rail access charges.

Monopoly Control of the Shipping Stem

Viterra is responsible for managing the shipping stem, the accumulation of grain and loading of vessels at port. Currently the company charges a booking fee of $5 per tonne to book vessel for loading slots, which is charged to the exporter at the time of approving the booking. Viterra also charges additional fees to accumulate grain and load vessels. The booking fee is held on deposit, and if the exporter loads the vessel in the booked parameters, then the fee is refunded. Should the exporter cancel or modify the booking, the fee is retained by Viterra.

It is reasonable that where Viterra has transferred grain to the terminal for shipment, that recompense or penalties should apply. However cancellations or changes prior to 14 days of the booked shipping time should not be penalised. Also an exporter who swaps with another exporter a booking for the same commodity standard and tonnage should not be penalised if this occurs within 14 days of the booked slot.

It is difficult to ascertain how much income is generated by Viterra through cancellations or modifications to booking slots.

Viterra charges it's grain marketing arm the same $5 per tonne booking fee. Any cancellation of slots is retained by the same entity that charged it (effectively an internal transaction) and therefore there is no penalty to the company in cancelling or modifying slots.

This enables them to book favourable shipping times, sometimes more than 12 months in advance, without any financial penalty if they do not ship in that slot. Effectively they can own the slot for no charge and sell this slot to a competitor later on.

There is anecdotal evidence of this occurring in the 2010/11 season, from a grain trader (Trader A) who owned wheat in South Australia. Trader A had an enquiry from a buyer for prompt delivery (not scheduled in the shipping stem). Trader A approached Viterra to book a shipping stem with the reply there were none available, however if Trader A sold the wheat to Viterra then Viterra would be able to find a slot.

Table 8, below indicates that Viterra has booked on the 8 March 2011, shipping slots for 2012 equivalent to 50% or more of the actual tonnes shipped by all exporters in the previous two years.

Table 8:
Shipping Stem Viterra Bookings v Total Actual Volume Shipped (All Exporters)

	Port					
	Outer Harbour			Port Lincoln		
	Jan-12	Feb-12	Mar-12	Jan-12	Feb-12	Mar-12
Booked on 8 March 2011	210,000	155,000	165,000	110,000	165,000	100,000
Actual shipped 2010	-	42,790	60,086	124,314	102,442	165,787
Actual shipped 2011	116,252	161,021	177,431	268,312	228,728	267,026

This practise then requires other grain exporters to book and pay for their slots, perhaps twelve months in advance, to ensure that they have the ability to ship at this time. The booking fee is non refundable and therefore these competing exporters are taking a risk if they have not accumulated grain by that period, or inhibits exporters from accumulating grain for shipment in a period where they do not have a slot booked. Predominately the booking vessel size at Outer Harbour is 55,000 tonnes, hence a deposit of $275,000 is required (a substantial amount of money).

Approximately 6,000,000 tonnes has been booked for 2011/12 season so far. This equates to $30,000,000 in booking fees which needs to be paid in advance and which would earn interest for the holder of the deposits. Based on an interest rate of 7% this equates to $2.1 million annualised.

Vessels not loaded within the time booked, are likely to be charged demurrage charges to the exporter. Exporters have no recourse to Viterra for delays to loading.

Recommendation

The shipping stem to continue to be managed by Viterra, as they are responsible for the arrangement of grain stocks to be available at the port for the loading of vessels.

The booking fee should be called a booking deposit, as it is not part of Viterra's general revenue, it is a deposit.

For exporters to arrange a shipping slot, a booking deposit of $5 per tonne is charged and deposited to an escrow account. The deposit is then redistributed back to the actual exporters for that slot on a pro rata basis.

The redistribution of the booking fee to exporters should occur quarterly through the year.

Interest earned on deposits in the escrow account should be more than sufficient to cover the administration of the shipping stem.

Shipping slots swapped between exporters are to be managed by Viterra, therefore reducing speculation and monopolisation by exporters of the shipping stem. The cost of the booking fee traded between exporters would remain at $5 per tonne.

The booking fee should remain at $5 per tonne, which is high enough to deter speculation on the shipping stem but not too onerous on exporters.

An independent authority (such as the ACCC under the current port access arrangements) would oversee and audit the accounts of the booking fee for the shipping stem.

That the management of the shipping stem, be consistent across all terminals nationally to ensure a transparent and level playing field.

Control of Market Information

Grain delivered to bulk handling sites, remain the property of the grain grower. Ownership of the grain is transferred, usually within warehouse to a buyer. The bulk handler only owns the grain if it purchases it from the grower or a trader.

Prior to the merger of ABB and AusBulk, stack averages for all sites with deliveries greater than 500 tonne were provided free and transparent for all to see on ezigrain (AusBulk's grain storage internet portal). This enabled both growers and traders to view the volume, grade and quality by site and port zone.

The benefit of this information assisted growers and traders alike. Traders are able to better understand the quality and quantity being produced and therefore are able price grain faster and more accurately. Conversely, where quality and tonnage is not known, traders are likely to either "discount for risk", or withhold pricing until they have a better understanding of quality.

Currently information is not available to traders and growers. Viterra's warehouse disclosure policy provided for farmers to "opt in" to release information on what was held in store by Viterra on behalf of growers. This information was released on one day (17 December 2010) well before harvest had got underway for most grain growers. It also provided little detail on the quality of the grain with wheat listed simply as wheat, with no quality.

Industry (except Viterra) is unaware of the tonnages and quality available at a particular location. Viterra's trading division have the knowledge of who the owner of the commodity is, where it's located and the quality parameters of the grain and the quality of the stack that it is in. They know which growers to ring and when, without competing traders having the same level of information.

Traders who are uncertain of the amount and quality of grain at a site are disadvantaged through this lack of knowledge. It is also difficult for traders to reconcile the quality of the grain they have purchased with the quality of grain out turned. Therefore grain buyers are likely to discount for the risk of not knowing what they are likely to receive, which flows back to growers through lower prices.

Grain buyers pay growers based on the receival docket issued by the bulk handler. The buyer may purchase an aggregated stock of say 9.5% protein ASW wheat at say in Port Lincoln zone. However the buyer may be out turned ASW with an average 8.5% protein on export as they are reliant on the bulk handling company to out turn with in a set term of parameters.

Out turn to minimum specification can reduce the grain exporters relationship with his customer as an unreliable supplier of wheat. This has the potential to damage overseas markets for South Australian growers if minimum specifications are supplied on a regular basis. Grain exporters may purchase from other terminals in Australia where they are treated more equitably.

Grain growers may also be affected to changes to the stack average to a site. Under the current arrangements a grain grower, warehousing malt barley, may feel obliged to sell to the bulk handler, as the cell may be downgraded to feed barley, considerably reducing the value of the grain.

Knowledge of stack averages also enables arbitrage of the stock. This may mean feed barley being out turned and redelivered as malt barley. Blending of grain by the bulk handler enables the trading division to purchase a combination of grades to blend up and sell as a higher grade for the full amount.

Site averages are not as accurate as cell or bunker averages. Under site averaging, there would be the ability for the bulk handler to say; segregate ASW above 10% to one cell and ASW below 10% to other cells. The site average may be 10% however the bulk handler has the ability to out turn different protein levels to suit their own ends.

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.

Grain Classification and Segregation

During the 2010/11 harvest period, wet wether and rainfall caused significant quality issues due to swollen, shot and sprouted grain.

South Australian grain growers have to deliver their grain to the Viterra system at harvest. This is in part due to the previous marketing arrangements under the single desk, where all wheat and barley had to be sold through the boards and SACBH handled all exports. Grain stored on farm under the old system, was not paid for until delivered into SACBH and therefore grain growers developed strategies for prompt delivery at harvest with minimal on farm grain storage.

Grain delivered to bulk handling sites, remain the property of the grain grower. Ownership of the grain is transferred, usually within warehouse to a buyer. The bulk handler only owns the grain if it purchases it from the grower or a trader.

Grain growers are reliant on the bulk handling site to classify the grain according to receival standards. The classification is reliant on visual assessment and mechanical testing of the grain against the standards. Grain meeting the standards is then received by the bulk handling site if there is room, and segregation for that grain is available.

Therefore grain growers and traders, through historical circumstances, are reliant on bulk handing sites to classify and therefore determine the value of their grain.

Grain growers pay a receival fee for this service with Viterra charging $10.70 for major grades of wheat and higher for other grains. This amounts to $450.00 per load of wheat (B-Double 42 tonnes) or an annual income likely to exceed $80 million from the 2010/11 harvest.

Growers are reliant on the receival classification as this is the classification they are paid on by the purchaser. A grower has right to dispute the classification and have a retest of the grain by resubmitting the load, by “going around” and rejoining the end of the sampling queue. If the grower is not satisfied with the classification again, he has little alternative than to take it home or accept the classification given.

Some growers have their own testing equipment, or may have testing done by other parties including state government pathologists and internationally recognised independent grain testing providers. These test results are not accepted by the bulk handling site. In some cases, loads tested at one Viterra site and sent to another Viterra site are subjected to retesting, and therefore reclassification. Even though growers may have evidence of loads being a certain quality, the bulk handling site is the sole arbitrator of the quality of that load, and in 2010/11, there were many incidences of growers being awarded a classification of quality lower than their own tests would indicate.

Downgrading of wheat from APW to Feed grade resulted in a loss in value of around $5,000 per load (B-Double 42 tonnes) based on grade price spreads during harvest.

Table 9: Indicative Grade Spread Prices

	Date			
Quality	6/09/2010	22/12/2010	17/01/2011	2/05/2011
Base Price APW	295	320	300	297
H1	22	70	25	25
H2	13	40	15	22
APW1	0	0	0	0
ASW1	-10	-20	-40	-51
AGP1	-15	-40	-50	-82
GPSF1	na	-85	-115	-117
FED1	-30	-95	-120	-122

If 5% of wheat in the 2010/11 season was incorrectly downgraded to feed from ASW1 or better, then this equates to more than $30 million in lost value to grain growers in South Australia.

An increase in the amount of feed quality grain received increases the grade spread between milling grades and the feed grades, further compounding the issue.

Where bulk handling sites have multiple samplers and classifiers, differences of classifications for the same load were common. There are also examples of truck drivers and farmers receiving either preferential or unfavourable classifications.

This has created significantly greater truck traffic on rural roads, as growers “hop” from silo to silo with the same load attempting to have a classification commensurate with their expectations. The increased distances travelled in these pursuits:

- consume more time, fuel, repairs and maintenance to vehicle
- affects drivers, log books and OH&S
- increased damage to roads

This has resulted higher costs back to grain growers and reduced safety on the roads.

There are a number of examples of grain growers after having a “positive” classification at one site, with no segregation available, travelling to another site and receiving a “negative” classification. For example a grower delivered Commander, which is a malting variety to Gladstone where it was classified as malt quality. As the Gladstone commander malt segregation was full the truck driver was sent on to Port Adelaide, where there was segregation for Commander malt barley. On arrival at Port Adelaide, the load was reassessed as feed 1, a quality level with a significant discount to malt and Port Adelaide did not have room for feed 1 as they were full. The driver then was then sent to Ardrossan, which was the closest feed 1 site, where again it was reclassified and this time assessed as malt quality, however there was no room for malt at Ardrossan. Therefore the grower ended up taking a voluntary downgrade to feed which there was room for, as the freight and experience was expensive and exasperating. A round trip of in excess 500km of unnecessary travel was incurred by the grower, and impacted on the driver’s efficiency and added undue vehicle to the road network. A simple solution for all concerned would have been a commodity transfer docket and tail gate lock issued from Gladstone for receival at Port Adelaide.

Recommendation

Sampling and classification staff must have independent certification and be licensed by Grain Trade Australia (or similar body). This is to ensure the integrity of the supply chain and protect markets overseas as well as ensuring grain growers are accurately classified.

The classification of loads given at one site (which can not be received at that site due to segregation availability) should stand for delivery to another site owned by the same bulk handling company (Commodity Transfer). It should not require resampling and testing and the load proceed direct to unloading. This process should be simple to implement using tail gate locking system and GPS monitoring / tracking systems.

Grain sampling equipment be calibrated and certified by an independent or a government authority as is the case in weights and measures.

A national body to be responsible for maintaining reference samples and the calibration of testing machines to all bulk handlers.

A dispute resolution process should be established to enable growers the right to dispute classification that they consider to be incorrect. This needs to be prompt and occur “same day” as the classification.

Random samples to be taken by an independent third party for calibration against grower deliveries at the bulk handling site. Recourse to growers who have loads incorrectly classified and penalty system established.

Through discussions with silo committee, where Strategic sites are unable to receive a commodity and send that load to a Satellite site due to segregation allocations, that locations differentials and storage and handling fees for Satellite sites be similar to the Strategic site they support. These Satellite sites should offer similar operating hours as the Strategic site.

Lack of Confidence in Grain Assessment – Visual Assessment

In the 2010/11 season, Viterra chose to use visual assessment of wheat as part of the determination of classification against receival standards. This involved assessing for shot and sprouted grains. Shot and sprouted wheat may be unsuitable for milling.

Wheat not suitable for milling is priced lower than milling quality wheat. During harvest 2010/11 the price deduction from H2 to FED1 was in excess of $120 per tonne and up to $160 per tonne depending on the time during harvest.

Other bulk handling sites including GrainFlow and EP Grain Storage, chose to provide additional testing equipment called falling number machines. The falling number machine provides a quantitative assessment of wheat and it's suitability for milling. SACBH used in excess of 60 machines in the wet harvest of 1992/93.

It could be expected that Viterra still own some machines. Viterra, knowing that wet weather would likely affect grain quality at harvest in 2010/11, made enquires into the hiring / leasing of falling number machines. These machines were available from CBH (who had supplied access to them in the past) however Viterra chose not to access them.

Approved Third Party Bulk Handlers GrainFlow and EP Grain Storage obtained falling number machines at their own cost. This can be seen as attempt to provide a higher level of customer service, as Third Parties are incurring additional fees for receival at port for export. They were able to receive grain as fast if not faster than grain received through comparable Viterra sights relying on visual assessment for sprouting.

Grain growers who delivered to GrainFlow and EP Grain storage sites commonly received higher classification for wheat compared to loads sampled at Viterra sites. This can be attributed to the use of falling number machines providing a more consistent and unbiased assessment of grain quality compared to visual assessment undertaken.

Growers from Tumby Bay, who had access to a local falling number machine, were able to:

- Assess their wheat quality with accuracy
- Confidently freight their H2 wheat to GrainFlow Crystal Brook which also used a falling number machine, (freight cost approximately $40 per tonne)
- Be classified and received as H2 quality at GrainFlow Crystal Brook
- Increased the value of the grain by $140 per tonne over the classification of FED1 they would have received at their local Viterra site, which was using visual assessment only.

Wheat segregation breakdown for receivals at GrainFlow sites in South Australia indicate that many loads were recording falling number results around the range of 200 to 300. A falling number above 300 would allow grain to be received as Milling grade, between 200 to 300 AGP1 and below 200 SFW1 and Feed. Grain Growers therefore benefited form having accurate, impartial and scientific assessment of their grain quality. Therefore grain growers delivering to sites with Falling Number machines had confidence in receiving the correct classification for their wheat and felt they more fairly treated.

Table 10:
GrainFlow Wheat Receivals by Grade
South Australia 2010/11

Grade	Percentage
H2	5%
APW1	16%
ASW1	36%
AGP1	20%
SFW1	22%
FED1	1%
	100%

GrainFlow and EP Grain Storage do not receive malt barley, partly due to the excessive port in loading fee of $3.80. Therefore it is difficult to ascertain the reliability of malt barley assessment by Viterra who have a monopoly on malting facilities in South Australia and who through historical mergers and acquisitions were the previous single desk for malt barley for exports from South Australia.

The use of qualitative measurement such as visual assessment may also lead to over classification of grain. That is that grain of a poorer quality than classified may be out turned to customers, resulting in financial penalty for exporters and damaging relationships with end users.

Bulk Handlers who provided Falling Number machines for grain growers, have a reduced opportunity to blend grain on out turn to a higher grade level, compared to sites which may have unnecessarily downgraded better quality wheat.

Recommendation

That all Strategic sites provide an objective grain quality testing (Falling Number Machine) facility.

That grain growers can elect to have an objective measurement carried out at that site, if they are not happy with a visual assessment.

That the results of a falling number test takes precedence over the visual assessment of the grain quality.

Truck drivers (and grain growers) be advised if their load is to be downgraded from their expected grade before the load is accepted for delivery, and the right to be shown why they are to be downgraded.

Improved competition in the bulk handling and storage to enable competitors to provide a higher level of service and quantitative assessment of grain.

Infrastructure Improvements, Repairs and Maintenance

Grain harvesting capacity has increased significantly during the past decade. This is due to larger harvesting equipment being used on larger properties, along with improved logistics through chaser bins and increases to truck size.

Harvesting grain faster has enabled grain growers to harvest more prior to potential rainfall events which may cause downgrades to grain.

Grain growers have increased on farm storage capacity to assist with handling larger volumes. Deliveries outside of harvest from on farm storage is subject to old crop receival and sampling procedures which includes chemical residue testing which makes marketing difficult due to delays in transport.

Marketing problems of grain delivered out of farm storage are also encountered as growers are unable to price grain with fixed price forward contract on grain that the grade they will be paid on will not be known until it is delivered to a bulk handling site.

To reiterate, growers are charged receival, segregation and shrinkage on deliveries off farm to the Viterra system, therefore negating the use of on farm storage specifically to store grain from export shipment at a later date.

Capacity at Viterra sites has increased marginally compared to gains to on farm harvesting. There would be little incentive to improve capacity due to the monopoly hold they have on grain storage in South Australia.

By comparison, the GrainFlow site located at Crystal Brook was able to take deliveries of 130,000 tonnes (capacity) using two classifiers. This was received in half the time that the Viterra Snowtown site received 260,000 tonnes (not full capacity) with four classifiers.

GrainFlow was able to replicate this across their other sites in South Australia. EP Grain storage was also able to take faster deliveries, and both these bulk handlers offered farmers the ability to use falling number machines.

These companies were able to receive deliveries faster due to a culture of client service; better elevating capacity as well as providing extended hours during peak delivery periods.

Grain growers are reliant on the harvest operating hours of Viterra sites as these sites receive the majority of grain deliveries in South Australia. There are a number of cases where operating hours saw sites closed during good harvesting weather and open during poor harvesting weather. Grain needs to be delivered below certain seed moisture levels. In most cases harvesting may not commence until late morning while dew conditions “dry off”, and then continue well into the evening. Operating hours of 7am to 3pm at some sites does not align with the practical requirements of harvest. Advertised operating hours were also amended without the knowledge of growers during the day resulting sites closed when they were thought open and open when they were thought closed.

Grain growers unable to continue harvesting due to full logistics, face the risk of downgrades to grain quality during wet weather. Growers with the capacity to harvest 70 tonnes per hour (which is common), can harvest 1,400 tonnes in 2, 10 hour days. If grain quality declines from APW to AGP1 due a halt in harvesting, then a loss in value to that grower equates to $70,000 and more if downgraded to GPSF1 or FED1. Across 1,000 grain growers this equates to $70 million in lost value.

Growers could build additional storage to allow for these logistical delays, however a more open and competitive bulk handling system in South Australia, would enable the construction of more cost effective and efficient bulk storage facility by company or co-operative organisations, than most growers would be able to undertake on their own.

There is general agreement between grain growers and truck drivers, that there has been a significant decline in service standards at Viterra sites in South Australia. One of the concerns is for safety around unloading of grain where road surfaces are uneven and sloping, resulting in tippers unloading over hoppers at a dangerous angle.

Repairs and Maintenance expenditure at Viterra sites has declined significantly in the past several years since AusBulk merged with ABB Grain, from around $36 to $46 million to $8 million.

Maintenance crews have been wound back and regional managers are awarded bonuses where expenditure is reduced, creating a culture of providing poor service delivery.

Construction of new bunkers did not commence until sites had reached capacity further delaying deliveries is another example of reactive rather than proactive management.

Some Viterra sites having reached capacity for a certain segregation (malt barley) amended receival dockets to downgrade the load to feed so that it could it could be in turned at the site.

To fill the void, either more on farm storage is required or other third parties who can deliver a higher level of service. Both these groups are disadvantages due to access issues through the ports.

Grain growers and truck drivers experience long delays between sampling and unloading with waiting times regularly exceeding two even three hours.

There is a need for the improved provision of staff and client amenities at grain receival sites. Under legislated OH&S and duty of care provisions suitable facilities need to be made available to ensure staff and clients operate in a safe environment with access to rest and recuperation areas. This should include access to toilet and shower facilities, shelter areas for rest breaks at all sites.

Road and Transport Infrastructure and Access

There are current inefficiencies in the road transport of grain in South Australia. Efficiency gains in harvesting speed are not being fully utilised through the transport of grain in larger volume per transport unit.

Currently bulk handling sites located within a short distance (sometimes less than a kilometre) of the Road Train access routes, can not receive road trains due to the need to upgrade the road suitability. In some instances only minor upgrades are necessary to enable this access.

The permit system for B-Double and larger configurations is cumbersome. Currently each truck needs to apply for a permit to use non gazetted roads. For example a contractor needs to apply for and have approved a permit for each truck, even if they are the same combination.

The current regulation sees inefficient smaller configurations making more trips, as opposed to larger configurations making slower, fewer and more efficient trips.

Recommendation

That state government:

- Enable the prompt identification and gazetting of roads for all bulk haulage transport vehicle combinations access by 2011/12 harvest.
- Audit access from “farm to silo” and “silo to silo” to ensure current access requirements are met

Appendix

- **Wheat Export Marketing Arrangements – Submission from South Australian Farmers Federation Grains Industry Committee April 2010**

- **Cost of Storage**

Wheat Export Marketing Arrangements

Submission from the South Australian Farmers Federation Grains Industry Committee, April 2010

The South Australian Farmers Federation Grains Industry Committee (SAFF Grains) is disappointed with the draft report of the Productivity Commission.

Unlike the Productivity Commission, SAFF Grains has found that deregulation to date has not given the benefits of competition that were expected, particularly for South Australia.

South Australia is different to the other States with the two gulfs and seven ports, and half the tonnage of Western Australia, and to date any competition has been largely stifled. There is very little up-country competition and this is unlikely to change when any company considering building further up-country facilities knows that eventually they will still need to use Viterra's ports, with its control of the shipping stem as well as control of the majority of road and rail logistics in South Australia grains export supply chain.

Grain prices in South Australia are low compared to Western Australia and the Eastern States because of the increase in the risk with dealing with the Viterra-controlled supply chain in this State. Buyers are going elsewhere to buy their grain and are only buying from South Australia as a last resort.

SAFF Grains urges the Productivity Commission to compare prices differences between States and to investigate why.

In our initial submission, SAFF Grains expressed concern that a monopoly has continued to flourish in the grains industry supply chain in South Australia to the detriment of grain growers. Monopoly control of the grains supply chain has increased the risk for the execution of grain sales for all participants in the industry.

There are issues dealing with accountability and competition that are currently missing from the supply chain for the South Australian grain industry. To increase productivity in the supply chain from the farm gate to the ship and to ensure all participants in the supply chain prosper, there is a need for transparency and full, open and fair access of the supply chain. Unfortunately the Productivity Commission appears to have ignored the situation in South Australia.

The position of SAFF Grains is to improve the accountability to help whole of industry reduce their risk to trading in South Australia. There is the need for real competition that can lead to efficiencies in the supply chain so that the whole industry operates in a streamlined and cost effective way. To increase the

number of participants there is the need to encourage risk and reward, even for Viterra.

In our intial submission, SAFF Grains highlighted anti-competition with the shipping stem (we gave several examples) and the lack of an information flow.

SAFF Grains also highlighted that Viterra prices third party bulk handler throughput rates through its ports at rates that make the use of any upcountry competing storage options outside of their supply chain untenable. As a sole provider of ship loading services for bulk grain in South Australia, Viterra has effectively complete control over the road and rail export logistical task, particularly as 80% of South Australian grain is exported. Their storage and handling agreement is structured in a way to ensure that third party storage providers cannot compete with their assets nor provide any competitive logistical services to bring grain to port.

Recently SAFF Grains were given details of how Genesee & Wyoming Australia Pty Ltd, who have a five-year agreement with Viterra have put unreasonable controls on their rail-lines in South Australia and are charging exorbitant fees. They run trains and control truck access. On their line from Dry Creek to Port Adelaide they require an additional pilot – while only a distance of 10 km, the charge for the pilot is $2.00 per mt. It has been calculated that for one train carrying 2,200 tonnes over 145 km of track, that Genesee & Wyoming Australia would charge $59,400 compared with V-Line $6,224, Australia Rail Track Corporation $2,482 and NSW Rail $2,317. This pricing structure virtually precludes any other company but Viterra from using rail in South Australia easily and cost effectively. There is also an additional rail weighing fee of $2.75 a tonne (2 to 5 cents would be reasonable).

Similar unreasonable charges appear to apply to anyone who wants to use the Viterra-controlled supply chain from the farm-gate through to the port and onto the ships.

SAFF Grains support deregulation. However the benefits of deregulation are not happening in South Australia because of the control of the supply chain by Viterra. Other participants are not willing to buy grain in South Australia because of the increased risks such as the high penalties for cancelling shipping, restrictions within the shipping stem, and high storage and handling charges.

The Productivity Commission needs to address this issue.

Cost of Storage

Comparison of Build or Rent Storage (500 tonnes and 10,000 tonnes of storage)

		500 tonnes		10,000 tonnes	
Capital Expenditure	Price per unit	Tonnes	Price per tonne	Tonnes	Price per tonne
Cost of Steel Silo Erected	$ 8,750	70	$ 125	2,500	$ 110
Concrete Pad	$ 1,500	70	$ 21	2500	15
Earthworks / site prep	$ 5,000	500	$ 10	2500	7
Auger	$ 20,000	500	$ 40	5000	$ 4
Loader / unloader				$ 50,000	$ 7
Total Capital Cost	$ 98,214		$ 196		$ 143

Annual Facility Cost (Interest and Deprectiation)

Item	Interest / Depreciation Rate	Annual Cost (500t)	Annual Cost (10,000t)
Silo - interest	8%	$ 12.51	$ 10.56
Silo - depreciation	2%	$ 3.13	$ 2.64
Auger - interest	8%	$ 3.20	$ 0.64
Auger - depreciation	5%	$ 2.00	$ 0.40
Loader / unloader - int	8%		$ 0.53
Loader / unloader - dep'n	7%		$ 0.47
Annual Cost of Facility		**$ 20.84**	**$ 14.24**

Annual Storage Costs

	Grower	**Grower**
	500t	**10,000t**
Annual Facility Cost *	$ 20.84	$ 14.24
Consumables	$ 0.40	$ 4.90
Shrinkage	$ 0.25	$ 0.25
Treatments	$ 1.00	$ 1.00
R & M	$ 1.50	$ 0.60
Labour	$ 1.00	$ 1.00
	$ 24.99	$ 21.99