

Senate Standing Committee on Economics

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Budget Estimates

31 May – 2 June 2011

Question No: BET 206
Topic: AWB Sites
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Senator Nash asked:

Mr Grimwade: Which market are you referring to in this respect?

Senator NASH: The wheat market.

Mr Grimwade: We looked at a number of different markets. If you are talking about the wheat market, we were looking at Cargill's acquisition of AWB's interest in a joint venture with GrainCorp.

Senator NASH: No. That is something different entirely. I ask you to take on notice, if you refer to that statement, and provide for the committee what the definition 'of significant sources' is and what those sources were. If you could do that, that would assist the committee. There are about 22 sites that Cargill are obviously going to have from the old AWB sites. What obligation will Cargill have to post prices and take receivables for other grain traders?

Mr Grimwade: There is no obligation imposed by us in relation to that.

Answer:

On 17 March 2011 the ACCC announced that it would not oppose the proposed acquisition by Cargill of AWB's commodity management business from Agrium.

The ACCC issued a press release on 17 March 2011 which outlined the key reasons for the ACCC's decision. Further details were made available on the ACCC's mergers register (www.accc.gov.au/mergers). Included in the press release was the statement:

The ACCC concluded that the proposed acquisition would be unlikely to substantially lessen competition as post merger Cargill would continue to face competition from a number of significant sources.

The ACCC's review of the proposed acquisition focused on whether the proposed acquisition would substantially lessen competition in a market or would be likely to do so, in breach of Section 50 of the *Competition and Consumer Act 2010*.

The ACCC assessed the likely impact on competition in several potentially relevant markets, including those for grain marketing and trading and grain storage and handling.

The significant sources of competition that Cargill would continue to face were, in the ACCC's view:

- GrainCorp, CBH, Elders, Glencore, Viterra and Louis Dreyfus in relation to grain marketing and trading
- GrainCorp in relation to grain storage and handling in NSW.

In forming its conclusion that the proposed acquisition was unlikely to substantially lessen competition in any market, the ACCC also considered whether competition between Cargill and AWB was particularly significant in the various markets relevant to the grain supply chain. The ACCC did not find evidence to suggest competition between Cargill and AWB were particularly close competitors. This was primarily because Cargill had a relatively small presence in the grain supply chain in NSW. Cargill had an interest in 3 grain storage sites and around 10% of the grain trading market. This compared with around 150 grain storage sites owned by GrainCorp in NSW and approximately 10 owned by AWB in NSW. The ACCC's market inquiries indicated that the most significant source of competition for the supply of grain storage services pre-acquisition in NSW was between GrainCorp and AWB. The ACCC concluded that this competition would continue to exist following the proposed acquisition with Cargill as the owner of the AWB assets. The ACCC also observed the under-utilisation of grain storage was a feature of the market and this was likely to drive competition between the remaining grain storage providers post-acquisition.

The ACCC also observed the growing market share of a number of grain marketers since deregulation of the market. These traders included CBH, Elders, Glencore, Viterra and Louis Dreyfus. The ACCC did not identify any significant barriers to these traders growing further following the proposed acquisition. This led the ACCC to conclude that if Cargill attempted to depress the price paid to grain growers or raise the price of grain to grain customers, other grain traders would provide a significant alternative source of competition in the grain trading market.