



Australian Grain Exporters Association¹

Comments on the Consultation Paper in regard to Vitterra's Proposed Auction System for Allocating Port Terminal Capacity

AGEA welcomes the opportunity to provide comment on Vitterra's Proposed Auction System for Allocating Port Terminal Capacity. AGEA supports the auction system as the most appropriate means of allocating capacity, however, has some concerns that the system proposed by Vitterra is similar to that of CBH in a number of areas and that this has the potential to reflect some of the weaknesses that have been highlighted in the CBH auction system. While AGEA's recognises the time constraints on Vitterra arising from the Undertaking's process, AGEA believes that the system does need to be modified, either now or finetuned once in place, to ensure appropriate outcomes are delivered.

The concept of allocating shipping capacity is still relatively new for the industry and, while Western Australia has had an auction system for three years, there are still issues remaining that need to be addressed before the auction system meets the requirements of a fair and efficient mechanism for allocating capacity.

The experience in WA provides a strong basis for identifying modifications to the system to improve its fairness and efficiency.

This submission addresses the issues raised in the ACCC's consultation paper.

Allocation of Capacity

AGEA believes that the auction system is potentially the most efficient mechanism for allocating capacity, however, recognises that the current system (in operation in WA) has flaws. AGEA believes that these flaws can be addressed through changes to the auction operating rules, rather than switching to other allocation systems. AGEA believes that it is essential that the flaws exposed in the CBH system are addressed and not transferred into Vitterra's proposed auction system.

AGEA believes that there are a number of rules/practices that could be put in place to reduce the potential for speculative behaviour and/or manipulation of the auction outcome. These include:

- Enabling the bid to be booked if slot is undersubscribed. The slot would remain open with capacity reduced by that that has been booked
- Holding more frequent auctions
- Limiting the volume a bidder can reduce their tonnage by, to the maximum volume that the slot is over-subscribed

¹ Note: While Vitterra is a member of AGEA they have not participated in discussions in relation to Vitterra's access undertakings and thus, any AGEA submission should not be seen as representing the views of Vitterra

- Giving flexibility to the port terminal operator to increase capacity by an agreed tolerance to enable a slot to be closed out
- No default to First Come First Served
- Enabling visibility of bidders and tonnes (this would be by code, not specific names)

Auction Timing

As identified above, AGEA believes that auctions should be held more frequently, rather than less frequently (frequency to be agreed). Efficiency gained by more frequent auctions needs to be balanced against resources required to participate in auctions across the various port terminal operators.

AGEA also believes that the Port Terminal Operator should have the flexibility to offer capacity 3-5 years out on an agreed deferred payment schedule. This would provide greater incentive for port terminal operators to make investments that will improve performance over the longer term.

Secondary means for allocating capacity - First come, first served

As identified above, AGEA does not support First Come First Served as the appropriate means for allocating capacity. This is because that First Come First Served process does not meet the requirements of the principles AGEA has identified as necessary for a fair and efficient allocation system. These principles are outlined in Attachment 1.

AGEA believes a more efficient mechanism would be to roll unallocated capacity into the next auction and hold auctions more frequently.

Determination of capacity made available at auction

Capacity offered at auction should reflect the capacity that is available to exporters to enable the export of bulk grain. While the capacity table as published is adequate, care should be taken that capacity offered and booked can be executed. There is evidence from the current season that capacity has been oversold and thus, exporters have not been able to execute capacity they hold. Implementation of appropriate accountability agreements would assist to avoid this scenario by providing improved market signals for industry participants to ensure supply chain optimisation, accountability and performance (refer to Attachment 1).

Shipping stem and auction results

AGEA believes that full transparency of the stem is one of the key principles that are required to ensure that the allocation system works effectively. This includes details of bookings and shipper available from time shipping slots are booked. This is consistent with Viterra's practice.

Auction Review Committee

AGEA believes that Viterra's Auction Review Committee as outlined is an improvement on that in operation under the CBH system. AGEA supports the inclusion of an independent specialist with industry experience being a member of the Auction Review Committee. This may be consistent with the "one 'trade' representative that is approved by a majority of Major Users" outlined in the Viterra proposal.

Auction Premium Rebate

AGEA does not have any comment on the auction premium rebate design, however, would like to see:

- More frequent payment of the rebate i.e. this could be repaid on a three monthly basis rather than once at the end of the 'non harvest period'
- Greater transparency of auction costs i.e. it would be desirable for auction costs to be audited and provided to parties eligible for rebates

Attachment I: Underpinning Principles to achieve efficient and acceptable Port Access Arrangements

- *Fair and competitive access* for all exporters to all capacity
- *Transferability of slots* i.e. allocation rules should permit transferability across ports, grain types, time slots and promote a liquid and transparent secondary market
- *Full transparency of the stem*
- Arrangements should *provide incentive for investment* by port terminal operators and exporters to promote improved efficiency in the supply chain
- *Accountability for performance* including appropriate commercial consequences on all parties (exporters and PTOs) e.g. Demurrage/Despatch agreement
- *Information transparency* in regard to stock (volume and quality) to allow assembly of cargos to meet customer requirements.
- *Information transparency* in regard to grower-warehoused stocks, i.e. weekly volumes by grade by port zone. This aggregate information relating to grower-owned stocks will significantly enhance competition for growers' grain stocks in PTO storages behind ports. Currently this information is only visible to PTOs, thus restricting access by other exporters
- *Independent governance*