



3 August 2012

Mr David Salisbury  
Deputy General Manager  
Fuel, Transport and Prices Oversight  
ACCC  
GPO Box 520  
MELBOURNE VIC 3001

Dear David,

*Cargill Australia Limited response to ACCC Consultation Paper. Vitterra proposed auction system for allocation port terminal capacity*

We have reviewed the above changes to the proposed auction system for allocating port terminal capacity of which there are a number of issues with which we have concerns. These are set out, at a conceptual level, in the paragraphs below.

2.1.1 Cargill believe there is too much opportunity of market distortion for the rebate not to be known when bidding at the auction. If marketers cannot see what rebate will be applied to their shipping slot how can they price their wheat to the export market? This would increase risk factor to all marketers involved in the Vitterra auction which could result in some marketers reducing their appetite to participate in the South Australian market and concentrating on East and West coast for their export program as they are unable to effectively manage the risk at the capacity auction. The risk of having to purchase highly priced slots 12 months in advance at an unknown value ultimately puts pressure on prices growers will receive at harvest.

2.1.2 We would expect some people to remove themselves from the auction and potentially remove themselves from the South Australian export market. The organisations that have enough risk appetite to bid at the auction will significantly lower their demand for higher end slots. This also goes against optimising the marketing of Australian grain as the value is higher in the first half of the year before other countries product comes on-line.

2.1.3 Cargill believes this will lead to such ports as Wallaroo and Thevenard to have very little demand unless exporters have specific sales from these ports.

Bulk exporters will try to use arbitrage opportunities to draw stock out of zone if the economics work, this will also have a large impact on the truck efficiencies when hauling stock out of natural catchment areas. This will also be driven by the opportunities at neighboring ports ie tonnes from Thevanard zone will be shipped from Port Lincoln as this port offers greater options for vessel sizes and ultimately the number of markets EP wheat can be sold to. We encourage Vitterra to publish the sites allocated to each port zone so marketers can easily plan the best execution pathway for sales.

2.2.1 Cargill believes the withdrawal of capacity limit will ensure the export capacity bidders are more likely to bid their actual requirements instead of trying to 'game' the system and over bid early to inflate the

market. Cargill believes the tonnage limit to remove each round should be capped at 120,000mt which equates to 2 Panamax vessels or two maximum size slots available to book as per auction rules.

2.2.2 Cargill believes there should be a chance for proxy's to be used as this is a way for marketers to ensure we are well prepared before the auction commences.

2.3 Cargill does not want a FIFS system in the current format under any circumstances as this gives marketers a reason to 'game' the auction system. Instead we propose more auctions more often similar to CBH timeframe whereby eliminating the need for FIFS unless capacity is to be shipped between auctions.

Some ideas to develop a system which should allow genuine bidders to acquire slots without values becoming unrealistic which has been the case in the WA Trade slot auction;

\*Cargill believes the rebate should always follow the slot even if the move to another port zone is requested by the shipper. If there are more frequent auctions held the spare capacity should be minimal in a high yield season therefore any movements would be to the advantage of both the shipper and Viterro operations.

\*Maintain the first 5 rounds of the auction in their current format so the whole market is able to assess demand vs. capacity and make any adjustments if applicable.

\*Round 6 forward if any slots are under subscribed or balanced these slots should be locked away and no more capacity can be booked in that slot. This would then restrict buyers who keep shifting slots which are already over subscribed to keep pushing prices of each slot high to unrealistic prices.

This new mechanism would create a situation where buyers would need to plan their bids carefully as potentially they could be booked at any time, which is what the auction system is supposed to represent. The new requirements will also stop any anti hoarding that any one marketer would have over others as they could be booked at any time.

Cargill has submitted this document in good faith that it will be recorded and also that our recommendations will be discussed further and implemented to ensure all marketers get a fair and equitable opportunity to export from South Australian Ports.

Yours sincerely,

Jesse Hedley  
Storage and Capacity Supervisor  
Cargill Australia Limited