



Mr Darren Arney, CEO GPSA

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cc: GPSA Board of Directors, Mr Dave Lewis, PIRSA

06 August 2015

Dear Darren,

Viterra welcomes the constructive discussions recently held with Grain Producers South Australia (GPSA) relating to the proposed introduction of long term agreements (LTAs) for the allocation of shipping capacity from Viterra's six bulk grain export terminals.

The development of LTAs commenced approximately 2 years ago in response to demand from all export customers.

Currently, Viterra allocates port terminal capacity to exporters for one year at a time via annual auctions and a first-come-first-served process. Long term agreements provide customers with a level of certainty around their operations in South Australia without the distortionary impacts of the auction system. The proposed LTAs would allow the opportunity for exporters to seek to negotiate long term access arrangements to Viterra's export terminals for a period of between two to five years.

The proposal, in its current form has not been accepted by the ACCC however in its findings from the Draft Decision of 16 July 2015 is described as *"a finely balanced one."* Further stating that; *"the ACCC has previously recognised the potential benefits of long term agreements to both port terminal service providers and exporters and that long term capacity arrangements may be appropriate in some cases. Potential benefits of long term agreements can include greater certainty for exporters in planning their long-term grain export programs and assisting the infrastructure owner with supply-chain planning."*

Supply chain planning includes having an effective system that supports harvest shipping. This vital element in the supply chain allows movement of grain through the system to remove bottlenecks occurring at grower delivery points allowing growers to continue delivering to their preferred sites. The financial impacts of the auction last year saw export customers pay higher prices to secure grain for the auction slots rather than lose entitlement to rebates. This was a minimisation of loss strategy and a large proportion of harvest shipping was reallocated to later in the year. This risk is non-existent for exporters shipping from all other ports in Australia and other global origins. It is important that the barriers to doing business in South Australia are as low as possible to encourage exporters to operate at peak times rather than being driven by auction rebate risk.

The introduction of LTAs ensures growers have buyers competing for their grain whilst maintaining a choice of who they market to.

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The adoption of LTAs in Western Australia and the majority of eastern Australian grain terminals will encourage marketers to focus their grower accumulation and export activity out of these zones in preference to South Australia. This has now been demonstrated through the CBH LTA negotiations, allocating an estimated 10 million tonnes of long term shipping capacity, followed up by the first-in-first-served allocation of an estimated 2.5 million tonnes of short term capacity. This process has taken place quickly and efficiently allowing marketers to focus their attention on buying grain from growers in that state.

The likely impact of these commitments in eastern and Western Australia are to result in lower demand for South Australian grain and potentially lower prices paid to grain growers in this state.

The adoption of LTAs in South Australia will assist marketers to negotiate sales agreements with international buyers within known periods. This will result in marketers improved confidence to buy grower tonnage based on certainty relating to shipping periods and associated fees.

Viterra acknowledges the concerns raised by GPSA in relation to the potential for an individual entity to receive a significant allocation of export capacity. The current auction system does not set any limits on any individual company's acquisition of port capacity. To prevent this issue arising, applications for shipping capacity under LTAs cannot exceed the initial nomination cap.

The initial nomination cap is 40% of the capacity at Outer Harbor and Port Lincoln terminals in the 6 month period from 1 January and ending 30 June and 50% of the capacity in all other cases.

The proposal incorporates safeguards against a single entity acquiring a significant portion of the capacity in peak demand periods. The first-in-first served system of allocating short term capacity and the long term capacity not previously taken up, without the distortions associated with auction rebates ensure there will be a number of exporters competing for grower grain in South Australia. The minimum requirements to secure long term capacity have been set at a very low level to encourage and allow all exporters to participate in long term agreements further supporting this position.

Based on feedback from industry participants Viterra has varied the port loading protocols and remains committed to developing LTAs under a structure that delivers benefits to all participants in the South Australian grains industry.

In seeking the support of GPSA in the introduction of LTAs, Viterra maintains that the potential benefits to terminal service providers and exporters coupled with the opportunity for improved supply chain planning and the removal of the market distorting impacts of the auction system create benefits that will be realised by South Australian grain growers.



Viterra has been asked by GPSA to provide specific responses to the following queries.

**1. Provide more transparency around the allocation of capacity per port**

The allocation of long term capacity provides opportunity for all exporters to negotiate to meet their individual needs with consideration of the criteria that also represent value to Viterra. The development of long term agreements has been in response to overwhelming request from export customers to provide them with what their business requires. Meeting these needs allows these companies to operate more effectively in the market in South Australia.

Long term capacity provides incentive for investment. This may be in the form of investment in accumulation models, infrastructure, human resources and product offerings to growers. This investment provides growers with more marketing options and operational gains by allowing Viterra to adjust their service levels to meet changing grower delivery patterns and needs.

The Viterra submission proposed that the total short and long term capacity that would be made available for each terminal was based on the historic shipping volumes from those terminals. Both the indicative short and long term capacity tables were published on 5 June 2015 and are available as attachment 1 to this document or through the following link: <http://viterra.com.au/ports-shipping/ports-shipping-2>

We recognise that these tables were provided following feedback to the ACCC on the proposal and as such GPSA has not been given opportunity to comment. We have clarified the long term capacity to be made available and also how the 2 million tonnes of guaranteed short term capacity is to be reasonably spread. It is our understanding from the ACCC feedback received in April that the provision of the short and long term capacity tables will allay the concerns previously raised by GPSA.

Under the proposal, short term capacity of 500,000mt would be available to export customers in each quarter for booking on a first-in-first-served basis. Short term capacity allows all export customers to engage in exporting opportunities as they arise and is sufficient to meet the needs of new entrants and any other genuine exporters that may not wish to enter into an agreement to acquire long term capacity.

The proposal maintains an appropriate amount of long term capacity to achieve the benefits that long term agreements offer. The initial offering of capacity represents an increase on that released in the auction last year reflecting some of the operational efficiency gains arising from long term agreements. This allows more South Australian tonnes to be exported in peak periods and allows buyers to reflect this in competitive prices to growers.

Subject to conditions outlined in the proposal, export customers may move, transfer to other exporters or surrender capacity if their planned exporting program is required to be varied. Export customers have a tolerance of +/-10% of their acquired capacity when physically executing on that capacity.



The submission also proposes a dispute resolution process including the ability of the ACCC to involve an independent auditor to provide a report in relation to Viterra's compliance with the Code in allocating shipping capacity.

## **2. *How does Export Select work with LTAs?***

Export select is a contestable service for the movement of grain by road and rail is currently utilised by the majority of exporters for grain accumulated at the terminals. This bundled logistics service is offered to export customers and operates in isolation of LTAs with Viterra focussed on providing this service for the greatest grain volume and for as many customers as possible. All export customers have the option to utilise this service or not.

Increased volumes of grain being transported through Export Select allows for economies of scale to deliver competitive transport prices for all participants in the Viterra supply chain. Export select positively contributes to the efficient operation of the supply chain via:

- the efficient movement of grain during the harvest period
- the clearance of sites in preparation for the following harvest
- increasing the capacity of grain that can be moved to port in any period and subsequently aligning peak shipping with peak demand periods
- competitive transport prices for all participants in the Viterra supply chain

Rail remains an integral part of the South Australian supply chain and Viterra continues to focus on rail efficiencies; demonstrated by the recently announced \$100m long term rail agreement. Export select has also allowed Viterra the confidence to commit to long term rail agreements in South Australia. These agreements underpin the South Australian grain supply chain, however they are extremely volume sensitive with significant fixed costs, therefore participation of marketers in export select is vital to the viability of these agreements

These competitive prices for the movement of large volumes of grain result in higher farm gate returns for growers.

## **3. *What is the pricing structure for export customers entering into LTAs?***

Viterra publish annually a fee structure relating to the provision of its services. Making this fee structure public, along with publishing Viterra's current standard terms, will ensure compliance by Viterra with the requirements of the Code. Under the proposal, this fee structure and standard terms will form the basis from which Viterra and export customers will negotiate, in good faith, to enter into LTAs. Both parties are incentivised to enter into agreements that deliver competitive outcomes for all participants.

Well negotiated, well-structured LTAs will allow grain to enter the international market competitively with grain from other origins. This is important in ensuring grain growers and



exporters from South Australia benefit from competitive pricing for all service offerings through a supply chain that adds value.

**4. What is the impact of location differential changes on LTAs i.e. If drawing arcs change whereby grain that was naturally to flow to ADE reverts to WAL?**

Under the proposal, export customers will have the opportunity to outturn grain from an upcountry site to the export terminal of their choice. Export customers will purchase this grain and transport to the terminals based on the most economic outcome. Growers will continue to benefit through a competitive process of multiple buyers in multiple locations with regular pricing signals based on supply, demand, location, quality and other factors.

Export customers will be focussed on gaining ownership within the port zones from which they commit to under their LTA and any change in grain values over location will be reflected in pricing to growers and other sellers.

I look forward to discussing this matter in greater detail ahead of your submission to the ACCC.

Yours Sincerely,

A handwritten signature in black ink, appearing to read 'Andrew Hannon', enclosed in a light grey rectangular box.

Andrew Hannon

Group Commercial Manager