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Australian Competition & Consumer Commission

By email luke.Sheehan@accc.gov.au

Dear Mr Sheehan

Viterra exemption application under the Wheat Port Code of Conduct

Before considering the access controls for use of Viterra's Port Adelaide bulk grain export facilities it is important that a broader view is taken of the bulk grain supply chain in South Australia.

In the 55 years since the establishment of South Australian Bulk Handling Pty Ltd [SACBH] in 1954, a grower owned cooperative, and its subsequent evolution into Ausbulk and then ABB Grain up to the sale to Viterra in 2009 grain growers were provided with the lowest handling charges for both export and domestic grain handling and storage. Even post the deregulation of the wheat and barley export markets totally fair access arrangements were provided. Never in that time was there a need or attempt by other parties to establish competing facilities for the bulk exporting of grain.

Given its exclusive ownership of all seven ABB Grain export facilities for bulk grain, including ship loaders, as well as all but four [developed by AWB] of the approximately 100 country silos there is no doubt that Viterra purchased a monopoly in the extreme sense of the word. This should have been obvious to all parties at the time of Viterra acquiring ABB Grain. Normally acquisition of such a complete monopoly would demand price control as the benefits to the acquirer would be through synergies with their existing enterprises, particularly in this case as Viterra is also an international grain marketer.

The ABB Grain facilities were sold in 2009 to Viterra, a Canadian international grain trader founded in 2007 when the Saskatchewan Wheat Pool acquired Canadian bulk handler Agricore. Glencore, the world's biggest commodity trader, bought Viterra in 2012.

According to Grain Producers SA, in its submission to ESCOSA, Viterra's charges for receiving and exporting grain is \$17 per tonne higher than CBHWA's. This is despite the South Australian grain handling system having a range of more efficient features than CBHWA e.g. higher percentage of grain delivered direct to port, newer facilities and a greater percentage of lower operating cost steel and concrete cell storage.

THE QUESTIONS THAT MUST BE ASKED

Why now is there a push to develop competing port and country storage facilities?

- The very high charges for Viterra's services resulting in grower frustration.
- The dissatisfaction of competing marketers with Viterra services.
 - Viterra prioritising Glencore/Viterra owned grain?

- Complications faced in obtaining rail services on track owned by Viterra [at port and country silos] and One Rail [Genessee & Wyoming].
- New entrants using the high Viterra charges, as opposed to the previous ABB Grain handling charges, as a means of entering the grain handling market. This does not assist growers to achieve lower handling costs.

What are the consequences of developing these competing export facilities?

- Eyre Peninsula is a good example with three new approved grain ports to take the total to five for a total EP production of 2,5 million tonnes. Resulting in:
 - Grain travelling in totally different export pathways which undermines existing rail and road infrastructure resulting in high additional road maintenance and development costs. Who is actually paying for these costs?
 - Massive duplication of grain storage facilities up to four times requirements, mostly in low cost bunkers that provide no value adding and segregation capability.
 - Major reductions in throughput per port resulting in higher unit costs.
 - Concerns for the viability of these facilities and growers who may have invested in them.
 - No net gain for growers or the State's economy as it is simply redistributing the same production to different facilities.

Why is Grain Producers SA and the state government not being more active in opposing the extremely high Viterra handling charges and the already illustrated consequences?

- Hopefully this will eventuate.

VITERRA'S CLAIM FOR REDUCING CONTROLS ON PORT ADELAIDE FACILITIES

Viterra's latest submission to the ACCC states:

- unused capacity at its Port Adelaide bulk grain facilities is due to competition from other export facilities at Inner Harbour
- Its Inner Harbour facility can handle panamax vessels.

Both claims are misleading.

UNDER UTILISED FACILITIES AT OUTER HARBOUR

The reduced throughput of bulk export grain in the years quoted by Viterra is largely due to the unique extended extreme drought situations experienced in all three eastern Australian states. Major quantities of both wheat and barley were transported to eastern Australia by rail during these years. This was exclusively from the Port Adelaide catchment area given its proximity to the eastern states and the fact that neither the Eyre or Yorke Peninsulas are rail connected.

Outer Harbour was developed to cater for Panamax vessels which enable lower sea freight costs and not a need for export tonnage capacity from the Port Adelaide catchment area. It is considerably more efficient than Inner Harbour in every facet of its operation from rail discharge to ship loading

with a focus on a better integrated supply chain. This brings the interaction between country silos, terminal storage capacity and rail transport into closer focus.

LOADING PANAMAX VESSELS AT INNER HARBOUR

Grain is recognised as one of the most dangerous bulk cargoes to transport. All hatches must be fully trimmed [loaded evenly to full capacity] in order to sail and not endanger the stability of the vessel with cargo movement in a hatch while at sea. Sailing with only some hatches full is totally uneconomic.

Viterra's Inner Harbour ship loader does not have the height and reach to load many Panamax vessels and certainly cannot fully load any Panamax vessel due to draught restrictions. The berths at Inner Harbour, which is 11 kms up the Port River and where small competitive bulk loading facilities are also located, have a maintained depth of only 9.3 metres, a maximum length of 206 m and beam of 32.2m. Often even some Handymax vessels need to be topped up at Outer Harbour which has a maintained berth depth of 14.2 metres, maximum length of 350m and beam of 49m.

The only location at Port Adelaide with deep water berths is the Outer Harbour container berth where the Viterra ship loader is located. The Viterra OH storage facility is located at the nearest point of its 25 hectare freehold site to the berth with the ship loader connected to the storage facility by an elevated gantry that allows clearance for container activity at the wharf.

Competitive facilities do not have access to rail whereas both IH and OH Viterra facilities both have rail access, In the case of OH a very efficient rail loop around its 25 hectare site that enables discharge of trains at 2,500 tph without any shunting.

Viterra's OH terminal has only 65,000 tonnes of storage capacity which places greater than usual demand on the need for totally unhindered access for competitive marketers to assemble cargo for export.

Containerised grain exports are minor in relation to bulk exports and have minimal bearing on bulk grain export access decisions. Neither IH or OH Viterra facilities were designed with a focus on containers and the only container port in South Australia is the Flinders Port one at Outer Harbour.

In the context of loading grain vessels at Port River locations it is worth noting that South Australia's fuel supply is almost entirely sourced from Singapore. The truck distribution and storage facilities for three of the four major fuel providers are co located at Birkenhead some distance up the Port River. All three receive fuel from the same vessels which are limited to 35,000 DWT due to draught restrictions in the Port River. Should any vessel get stuck in the Port River for any reason, including an attempt to maximise payload at Inner Harbour or utilise larger vessels, it would compromise the States fuel supply with very serious consequences. [Note: Eyre Peninsula fuel is imported at Port Lincoln.]

Based on just the above there appears to be no real basis for easing controls on the operation of either Viterra bulk grain export facility at Port Adelaide.

SUMMARY

BIGGER PICTURE

Before considering any changes to controls at any of Viterra's South Australian grain export ports the pricing policy of Viterra, as a monopoly provider, must be reviewed against those of a very similar organisation. The only directly comparable organisation is CBH WA given its similar separation of grain production areas and ports, major export focus and similar grain types.

This is imperative

- in the interests of the States grain growers from a pricing perspective
- to avoid fragmentation of export facilities resulting in redirection of export pathways with consequent increases in road infrastructure cost and the weakening of rail freight services to the industry. This is of no net benefit to the State or grain growers.
- To avoid the development of facilities that have poor operating performance particularly in relation to ship loading arrangements that impact on sea freight costs into the foreseeable future.

PORT ADELAIDE GRAIN EXPORT FACILITIES

The rationale for both of the above Viterra's latest claims for reduction of controls on its Port Adelaide Inner Harbour and Outer Harbour Terminals are not valid for the reasons set out.

Thank you for the opportunity to comment on this important subject. I confirm that I have no vested interest in this matter other than my past employment in executive roles in the grain industry.

More detailed comments on the subject of monopoly pricing are available from my submissions to ESCOSA.

John Hill

Contact details withheld by ACCC