

Post Harvest Comparative Analysis of Storage and Handling Charges

A report prepared for
South Australian Farmers Federation

Prepared by



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EconSearch Pty Ltd
214 Kensington Road,
Marryatville SA 5068
Tel: (08) 8431 5533
Fax: (08) 8431 7710
www.econsearch.com.au

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Abbreviations

ABB	ABB Grain Limited
ABS	Australian Bureau of Statistics
AWB	AWB Limited
CBH	Co-operative Bulk Handling Ltd.
ETA	estimated time of arrival
FOB	free on board
PIRSA	Primary Industries and Resources of South Australia
SAFF	South Australian Farmers Federation

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1. Introduction

ABB Grain Limited (ABB) operates grain storage, handling and export facilities, primarily in South Australia. Limited competition exists in the grain handling and storage sector with AWB Limited (AWB), Grain Corp, on-farm storage and private storage handling, on average, approximately 20 per cent of the grain harvest and ABB the balance. Through the ownership of port storage and handling facilities ABB holds a monopoly position in the export of South Australian grain.

For the 2007/08 season ABB introduced an updated fees and charges schedule for farmers and grain traders. These fees have been separated into two categories to ensure that valid comparison can be made over time and between competitors, namely:

- core storage and handling charges – those charges or fees which are unavoidable in the storage and handling of grain; and
- non-core charges – fees charged for specific services such as exporting during peak harvest time.

In response to the introduction of this new fee structure by ABB the South Australian Farmers Federation (SAFF) contracted EconSearch Pty Ltd to undertake a comparative analysis of ABB's storage and handling charges. The terms of reference for the study are provided in Appendix I. In summary, the objectives of the analysis were as follows.

1. Model available data to determine the impact of the new charging structure on farm gate returns and free-on-board (fob) charges (Section 4).
2. Perform a comparative analysis of the costs applicable at sites where ABB, AWB and Grain Corp operate competing facilities (Section 5).
3. Assess the impact of the Volume Variation factors (Section 6).
4. Review the effect of the new charging structure at B and C sites on competitive pricing (Section 7).

A description of ABB's 2007/08 season fees and charges is provided in Section 2 and the assumptions used in the analysis are detailed in Section 3 of the report.

In response to a letter distributed by the Chair of the SAFF Grains Council inviting input to the analysis (Appendix I), written submissions were received from a number of individuals and organisations (Appendix II). These submissions, together with discussions with various parties (including those who made written submissions) and data available in published documents, formed the basis of the analysis.

2. Description of Fees and Charges

Annual Account Fee: levied on all clients but with variable level of service. The *premium service* fee (\$25,000) gives the client the ability to post pricing options at all of ABB's sites for all commodities. Automated acquisition files and a designated client account manager are also provided when the premium fee is paid. The *standard service* fee (\$5,000) allows for the posting of prices for all commodities at A class sites only and support from ABB's client services department is provided on a more limited basis. This fee was introduced for the 2007/08 season.

Receival Fee: charged for grain receival, sampling for classification, weighing, inward elevation, recording and provision of delivery information and access to transactional information via the *ezigraintm* website. In 2007/08, the receival fee was \$7.50/t, an increase of 2 per cent from the previous year.

Storage and Segregation Fee: for services such as utilisation of storage facilities, grain segregation, grain protection and transaction and stock information. In 2007/08, this fee was \$1.85/t, a decrease of 12 per cent from the previous year.

Volume Variation Factor: a new fee for the 2007/08 season, this factor provides for a fee to be charged in below average seasons for under-utilisation of ABB's infrastructure or a deduction in fees in above average seasons. An estimate of crop production is determined in September (in the 2007/08 season the crop was estimated at 4.0mt to 5.0mt¹). Rebates apply if the PIRSA estimate is less than the actual crop and no further fees apply if it is overestimated. This fee is levied on a per tonne of receival basis and is a component of the Port Handling and Shipping fee.

Monthly Carrying of Stock (carry fees): charged to the owners of the current season's grain being stored in ABB's facilities. Monthly charges accumulate as long as the grain remains in storage. Clients are charged for every month stored as opposed to previous years when charges were incurred from February onward, not the month after receival. Between the 2006/07 to 2007/08 seasons, these fees increased by 31 per cent for feed barley delivered in December and out-turned in July (or 100 per cent if out-turned in February).

Road/Rail Out-loading Fee: charged when a client out-loads grain from ABB sites and includes site to site movements and domestic out-turns. This fee increased 13 per cent to \$2.00/t in the 2007/08 season.

Port In-loading Fee: applies to all grain delivered to a port terminal regardless of the site of origin. This fee increased by 45 per cent to \$3.20/t in the 2007/08 season for road and 20 per cent to \$2.10/t for rail. Historically, 60 per cent of grain to Port Adelaide has been delivered by rail, implying a weighted average fee of approximately \$2.54/t.

Vessel Nomination Fee: applies at all ABB port terminals and is derived from when the client notifies the company of its intention to ship. Prior to the 2007/08 season this was a flat fee of \$30,000 out of Port Lincoln and Port Giles only. Now it is charged on a sliding scale at all ports, as outlined in Table 2.1.

¹ Based on information provided by PIRSA.

Table 2.1 Vessel nomination fee schedule

All Ports: Number of days notice of vessel arrival	All commodities (\$/mt)	
	Intent to ship provided to ABB	Intent to ship NOT provided to ABB
> or = 21 days	NA	\$0.50
>10<21 days	\$0.50	\$1.00
<10 days	\$1.00	\$1.50

Source: ABB (2007) 2007/08 Storage and Handling Agreement.

Port Handling Fee: covers the out-turn of grain stored within the ABB system or grain delivered from a third party. This charge includes shipping related positioning, preparation, stevedoring, volume variation and any shipping related documentation. This fee has increased by 29 per cent to \$8.65/t (including the volume variation factor) in the 2007/08 season. The increase in this fee is due largely to the addition of a component to help cover the costs of constructing the new terminal at Outer Harbour.

Ship Loading Fee: covers the utilisation of the bulk loading plant at all port terminals to transfer grain over the vessel's side. This fee remained constant between the 2006/07 and 2007/08 seasons. For all grades of wheat and barley it is \$2.00/t at Port Adelaide, Outer Harbour, Port Giles and Port Lincoln and \$1.95/t at Thevenard and Wallaroo. For other grains it was \$0.05/t more than the fee for wheat and barley.

Vessel Variation Fee: applies in the event that the client nominates a vessel and accumulation plans have commenced but, within 21 days of the vessel's estimated time of arrival (ETA), the vessel is subsequently cancelled without substitution or the substituted vessel is delayed from the original ETA by more than 3 days. In the event the new vessel maintains the original ETA, the fee will not apply. The fee applies to the original nominated vessel tonnage. The vessel variation fee does not limit ABB to seek further damages in relation to the cancellation or delay of the vessel. This fee increased by \$1.00 to \$2.00/t for the 2007/08 season.

Shipping Re-positioning Fee: where cargo has been partly or fully positioned for a shipment at an ABB port terminal as a result of a vessel nomination by a client and subsequently the nominated vessel is cancelled or delayed from its original ETA by more than 3 days, *shipping re-positioning fees* may apply where the port terminal is blocked and causes other clients (who have a firm vessel nomination from ABB) to experience delays (see Table 2.2). These fees remained unchanged for the 2007/08 season.

Table 2.2 Shipping re-positioning fee schedule

	\$/t	Comment
Positioning to other permanent storage (and back to shipping block)	\$2.00	
Positioning to bunkers (and back to shipping block)	\$5.00	excludes freight cost
Positioning from Outer Harbour to Inner Harbour	\$5.00	includes freight cost

Source: ABB (2007) 2007/08 Storage and Handling Agreement.

Site Assembly Fee: when moving stock to port terminals from B or C class sites, the client will be required to own a minimum of 1,000 tonnes to avoid a flat fee. This charge has been introduced in 2007/08 and has replaced a \$1/t premium, which reflects the higher cost of receiving grain at these sites. This fee can be waived at the determination of ABB.

Blending Fee: applied to the total volume of grain involved in blending a grain parcel. The Blending Fee is charged when the client requests that binned grades that have been segregated by the company are mixed together into a grain parcel. *Blending fees* are not applicable in the following circumstances.

- Binned grades are blended for operational reasons at the request of ABB. In this event, the blending charge still remains applicable for the portion of the grain parcel blended at the request of the client.
- Breakdown of ABB mechanical equipment prevents loading of a particular quantity of stock (therefore requiring blending to take place to ensure efficient loading rates are achieved).

Blending is partially undertaken during segregation of grain at receival facilities. This allows ABB to 'actively stack manage' grain during loading of vessels. This ensures shipments can accurately meet the requirements of customers.

The blending charge applies to mixing that occurs either at ABB up-country sites, port terminals or during the shipping out-turn process. The blending charge also applies if the client directs that different binned grades be out-turned into the same storage vessel of any transport unit. When physical separating barriers (or clearly identifiable separations) of a temporary nature are placed within the storage vessel of the transport unit, a blending charge will not apply. Historically, approximately 90 per cent of grain is blended. Blending fees increased by 23 per cent between the 2006/07 and 2007/08 seasons from \$0.65/t to \$0.80/t.

Harvest Shipping Fee: covers the cost incurred for the appropriate positioning of stocks at port and/or up-country during harvest and to provide access to ABB's port infrastructure in a period of peak activity. This fee, introduced in 2007/08 at \$1.50/t, is applied at peak shipping time and is applicable to all grain shipped during the period 15 November to 31 January.

Minimum Cargo Lift Fee: applies to all grain loaded on a vessel at any one of ABB's port terminals where total vessel load is less than 15,000 tonnes. This fee has been introduced for the 2007/08 season and was set at \$1.50/t.

Sampling Fee: the standard ship sampling procedures of ABB for the sampling of commodities while loading to a vessel include a running sample and a composite sample. A premium service can also be accessed which incorporates standard procedures, additional samples and a running sample. This fee has increased by 15 per cent between the 2006/07 and 2007/08 seasons from \$0.13/t to \$0.15/t.

Ship Loading Efficiency Fee: applied to recover costs incurred by the port terminals in positioning grain where actual ship loading performance achieved exceeds standard benchmarks. This fee has been introduced in the 2007/08 season and was set at \$1.00/t.

Shrinkage: a shrinkage factor is deducted from each load at the time of initial delivery into the ABB system. The delivered receival tonnage less shrinkage is credited to the stock account of the client. This shrinkage factor has been increased in 2007/08 from 0.5 to 0.6 per cent of total grain delivered to an ABB facility. Assuming a tonne of feed barley is worth \$350/t, the associated charge has increased from \$1.75 to \$2.10/t. For grain received from approved third parties an additional shrinkage factor of 0.35 per cent is applied.

Transfer In-Store Administration Fee: applied to the purchasing client's account. In 2007/08 this fee was \$0.25/t (\$0.50/t for manual transfers), an increase over the previous year of 150 per cent.

Receival at Port Service Fee: this service may be offered subject to agreement with the terms and conditions specified by ABB. The fee applies to third parties planning to export grain from ABB's port terminals. Where the client agrees to the terms and conditions for this service, the client will then be deemed to have selected ABB's 'Export Easy Port Handling and Shipping' service.

There are several exclusions to the service:

- the service is unavailable in the period between 1st November to 31st January;
- ABB has the right to reject parcels or individual loads where the grain delivered does not satisfy receival standards or the grain is unsuitable for the quality parameters of the '*Cargo Assembly Plan*';
- ABB will not accept un-fumigated grain, grain infested with insects or grain without a clearance certificate;
- ex-farm storage;
- no firm vessel nomination has been provided; and
- ABB has the discretion to defer receival at port service due to lack of suitable storage including ability to segregate the parcel of grain or where it is uneconomical to provide such a service.

Stock Swap Fee: where requested by a client, or as necessary as a result of a vessel accumulation, ABB will provide a stock swap service in order to assist the client to consolidate tonnage. The fee also applies to tonnage consolidated for the purposes of domestic out-turn. ABB does not guarantee this service will be available. This is a new service for the 2007/08 season and the schedule is outlined in Table 2.3.

Table 2.3 Stock swap fee schedule

Weight ranges for swaps	Cost
<50 tonnes	\$25.00 /swap
51 - 100 tonnes	\$0.50 /tonne
101 - 500 tonnes	\$0.75 /tonne
501+ tonnes	\$1.00 /tonne

Source: ABB (2007) *2007/08 Storage and Handling Agreement*.

3. Assumptions used in the Analysis

The ABB Storage and Handling Agreement for the 2007/08 season contains a range of unavoidable and avoidable fees. For the purpose of this analysis these fees were categorised as 'core' and 'non-core' fees, respectively. The following fees for up-country receivals were considered to be core fees:

- receival fee;
- storage and segregation fee;
- carry fee;
- road/rail out-loading;
- volume variation; and
- shrinkage.

The following fees were regarded as core shipping fees:

- port out-loading service charge (2004/05 only);
- port in-loading fee;
- port handling and shipping fee;
- ship loading fee;
- blending fee;
- volume variation; and
- ship sampling fee.

All other fees and charges were considered 'non-core'.

In order to determine the impact of the new ABB charging structure on farm gate returns and fob charges the following assumptions were used in the analysis.

- the analysis is based on feed 1 barley;
- grain is delivered to Port Adelaide;
- grain is delivered to receival facilities in December;
- grain is delivered to an A class site, unless stated;
- grain in-loaded to port via rail (60%) and road (40%);
- grain shipped is 'export easy';
- shrinkage on \$350 of product; and
- shipping out turn is 24/7.

The analysis of the storage and handling agreements and component fees or charges was undertaken for the 4 years, 2004/05 to 2007/08.

4. Impact of the New Charging Structure on Farm Gate Returns and FOB Charges

4.1 Time Series Analysis of ABB's FOB Charges

ABB's fee structure has undergone significant restructuring over the past 4 years (i.e. 2004/05 to 2007/08). A shift towards placing costs on the port side of the supply chain has occurred and cost increases over the period of the analysis have outpaced the consumer price index (CPI) in Adelaide². Long term storage charges have dropped over the period whilst fees are charged earlier in the grain storage cycle. Significant increases in fees occurred between 2006/07 and 2007/08.

The overall mix of changes in rates for storage and handling in 2007/08 has resulted in relatively small increases for up-country site costs where competition exists. Port charges, however, have gone up significantly where SA clients cannot avoid using the ABB ship loading infrastructure.

4.1.1 Base case – core fees only

The increase in core fees between the 2006/07 and 2007/08 seasons has been the most significant over the period of analysis. Up-country charges in aggregate increased between 13 and 14 per cent, port fees increased by 28 per cent whilst core charges in aggregate increased by 20 per cent over this period (Table 4.1).

The Outer Harbour charge is now factored into the port handling and shipping fee. This largely explains the increase in this fee between 2006/07 and 2007/08. The new Outer Harbour terminal will bring efficiency benefits to the eastern regions of South Australia through decreased export costs. The Eyre Peninsula will also directly benefit as a result of ships being able to be load to capacity in Adelaide without needing to be filled up in Port Lincoln (Marc Cooney, ABB, pers. comm.). By including an Outer Harbour charge in fees for the Eyre Peninsula ports does mean that the implicit cross-subsidy by growers on Eyre Peninsula to growers elsewhere in the state is being maintained.

The export pathway charges (including non-core charges) have increased markedly in 2007/08 and have the most uncertainty. Many of these charges are at penalty rates to the client but are levied in a manner that does not present a clear signal to the grower and could, therefore, have limited influence on grower behaviour.

² The CPI in Adelaide increased by 8.7 per cent between the December quarters in 2004/05 and 2007/08 (ABS 2008).

Table 4.1 Detailed ABB up-country and port charges (core fees), 2004/05 to 2007/08

ABB Service	Fee or Charge (\$/t)				Change			
	2004/2005	2005/2006	2006/2007	2007/2008	04/05 to 05/06	05/06 to 06/07	06/07 to 07/08	Year of introduction to 07/08
Up-Country Charges								
Receival Service Fee	\$9.20	\$7.35	\$7.35	\$7.50	-20%	0%	2%	-18%
Storage and Segregation Fee	\$2.00	\$2.95	\$2.10	\$1.85	48%	-29%	-12%	-8%
Carry until Feb	\$0.00	\$0.30	\$0.30	\$0.60	0%	0%	100%	100%
Carry until July	\$4.70	\$1.80	\$1.80	\$2.35	-62%	0%	31%	-50%
Shrinkage on \$350 of product	\$1.75	\$1.75	\$1.75	\$2.10	0%	0%	20%	20%
Road Rail Out-loading Fee	-	\$1.05	\$1.77	\$2.00	new	69%	13%	90%
Volume Variation	-	-	-	\$1.00	-	-	new	-
Total Up-Country Charges (Carry Feb)	\$12.95	\$13.40	\$13.27	\$15.05	3%	-1%	13%	16%
Total Up-Country Charges (Carry July)	\$17.65	\$14.90	\$14.77	\$16.80	-16%	-1%	14%	-5%
Port Charges								
Port Out-loading Service Charges	\$7.60	-	-	-	ceased	-	-	-
Port In-load Fee ^a	-	\$1.65	\$1.75	\$2.54	new	6%	45%	54%
Port Handling and Shipping Fee	-	\$6.50	\$6.70	\$7.65	new	3%	14%	18%
Ship Loading Fee	\$1.64	\$1.75	\$1.85	\$2.00	7%	6%	8%	22%
Blending Fee	\$0.50	\$0.45	\$0.65	\$0.80	-10%	44%	23%	60%
Volume Variation	-	-	-	\$1.00	-	-	new	-
Vessel Nomination Fee	-	-	-	\$0.00	-	-	new	-
Ship Sampling Fee	-	\$0.13	\$0.13	\$0.15	new	0%	15%	15%
Total Port Charges (Carry July)	\$9.74	\$10.48	\$11.08	\$14.14	8%	6%	28%	45%
Total Charges (Carry Feb)	\$22.69	\$23.88	\$24.35	\$29.19	5%	2%	20%	29%
Total Charges (Carry July)	\$27.39	\$25.38	\$25.85	\$30.94	-7%	2%	20%	13%

^a Based on the use of rail (60%) and road (40%).

Source: ABB

Separate analysis of ABB's charges for individual services is of limited benefit because of the company's ability to shift charges along its supply chain. A more transparent analysis is achieved by grouping the fees into receival and handling fees, storage fees and port charges, as presented in Table 4.2.

Table 4.2 Base case: summary ABB up-country and port charges (core fees), 2004/05 to 2007/08

ABB service	Fee or Charge (\$/t)				Change	
	2004/2005	2005/2006	2006/2007	2007/2008	04/05 ^a to 07/08	06/07 to 07/08
Receival and handling	\$12.95	\$13.10	\$12.97	\$14.45	12%	11%
Storage:						
Out-turned Feb	\$0.00	\$0.30	\$0.30	\$0.60	100%	100%
Out-turned July	\$4.70	\$1.80	\$1.80	\$2.35	-50%	31%
Average storage charges	\$2.35	\$1.05	\$1.05	\$1.48	-37%	40%
Port charges	\$9.74	\$10.48	\$11.08	\$14.14	45%	28%
Total charges ^b	\$25.04	\$24.63	\$25.10	\$30.07	20%	20%

^a For services introduced after 2004/05 the % change is calculated from the year of introduction.

^b Total charges are based on average storage charges.

Source: ABB and EconSearch analysis.

4.1.2 Scenario 1: Core plus harvest shipping and ship loading efficiency fees

The data presented so far have not included new non-core charges for the 2007/08 season. Most of the new fees have been introduced at the shipping end of the supply chain. This implies that for many shipments, port charges have increased by significantly more than indicated in Table 4.2. Scenario 1, shown in Table 4.3, illustrates where grain is out-turned in January (incurring the harvest shipping fee) and the ship is loaded consistent with or better than ABB's ship loading benchmarks (incurring the ship loading efficiency fee).

To make the comparison with previous years valid, account is taken of the increase in shrinkage in 2007/08 (from 0.5 to 0.6 per cent). It is further assumed that the trader handling the shipment has paid the premium service fee and is handling approximately 100,000 tonnes for the season (implying an annual account fee of \$0.25/t).

If grain is exported during the peak shipping season the *harvest shipping fee* would be incurred (i.e. \$1.50/t), although the carry fee for January out-turn would be less. If the ship is loaded consistent with ABB's ship loading benchmarks, the *ship loading efficiency fee* would also have been incurred (i.e. \$1.00/t). If both charges were incurred, the increase in port charges over the period 2006/07 to 2007/08 would have been 50 per cent (Table 4.3) rather than 28 per cent (Table 4.2).

Under this scenario, the impact of new and increased fees on total charges would be 31 per cent (Table 4.3), rather than 20 per cent (Table 4.2) over the period 2006/07 to 2007/08. If allowance is made for the annual account fee and the effective increase in cost brought about by the increase in shrinkage, the increase in charges over the period would be 33 per cent, from \$24.05/t to \$31.99/t (Table 4.3).

Table 4.3 Scenario 1: Summary ABB charges including harvest shipping and ship loading efficiency fees, 2004/05 to 2007/08

ABB service	Fee or Charge (\$/t)				Change	
	2004/2005	2005/2006	2006/2007	2007/2008	04/05 ^a to 07/08	06/07 to 07/08
Receival and handling	\$12.95	\$13.10	\$12.97	\$14.45	12%	11%
Storage out-turned Jan	\$0.00	\$0.00	\$0.00	\$0.30	-	-
Port charges:						
Port charges - core	\$9.74	\$10.48	\$11.08	\$14.14	45%	28%
Harvest shipping fee	\$0.00	\$0.00	\$0.00	\$1.50	-	-
Ship loading efficiency fee	\$0.00	\$0.00	\$0.00	\$1.00	-	-
Total port charges	\$9.74	\$10.48	\$11.08	\$16.64	71%	50%
Total charges ^b	\$22.69	\$23.58	\$24.05	\$31.39	38%	31%
Annual account fee ^c	\$0.00	\$0.00	\$0.00	\$0.25	-	-
Increase in shrinkage ^d	\$0.00	\$0.00	\$0.00	\$0.35	-	-
Total effective charge	\$22.69	\$23.58	\$24.05	\$31.99	41%	33%

^a For services introduced after 2004/05, the % change is calculated from the year of introduction.

^b Total charges are based on January out-turn.

^c The annual account fee was imputed on a per tonne basis assuming the client trades 100,000t/an and pays the premium service fee.

^d Based on feed barley worth \$350/tonne and an increase in the shrinkage factor from 0.5 to 0.6 per cent of total grain delivered.

Source: ABB and EconSearch analysis.

Many other fees have been either introduced or increased for the 2007/08 season, including the:

- Vessel variation fee (100 per cent increase);
- Stock transfers in store ex client or warehouse (150 per cent increase);
- Minimum cargo lift, \$1.50/t (new charge);
- Site assembly fee (B class site \$3,000 fee, C class site \$4,500 fee)³;
- Rail weighing fee (67 per cent increase);
- Annual account fee (\$5,000 standard, \$25,000 premium – new charge);
- Receival at port fee ex third party storage (increased based on AWB Submission, pers. comm.);
- Stock swap fee (minimum \$0.50/t – new charge);
- Re-delivery fee (14 per cent increase);
- Domestic rail out-turn (weekend) (67 per cent increase);
- Domestic road out-turn (weekend) (33 per cent increase);
- Road underperformance fee (33 per cent increase); and
- Ad hoc sample requests (increased between 67 and 230 per cent).

³ The site assembly fee is being compared to the higher receival fees at these sites in previous years. The site assembly fee is discretionary and can be avoided if out-turned in line with Site Availability Plan.

4.1.3 Scenario 2: Core plus minimum cargo lift and ship loading efficiency fees

To illustrate how the introduction of, or increase in non-core fees have increased costs to ABB clients, the following example (Table 4.4) is provided for a small shipment of less than 15,000 tonnes that is out-turned in July. It is assumed that 20 per cent of the shipment is sourced from several B sites in quantities of less than 1,000 tonnes (6 sites averaging around 500 tonnes per site).

As with the previous scenario, account is taken of the increase in shrinkage in 2007/08 (from 0.5 to 0.6 per cent) and an annual account fee equivalent to \$0.25/t.

Considering the change from 2006/07 to 2007/08, the increase in port charges would be from \$11.08/t to \$16.64/t (Table 4.4), i.e. 50 per cent rather than 28 per cent (Table 4.2) and the increase in total charges would be from \$26.05/t to \$34.64/t (Table 4.4), i.e. 33 per cent rather than 20 per cent (Table 4.2). As above, if allowance is made for the annual account fee and the effective increase in cost brought about by the increase in shrinkage, the 12 month increase in charges would be 35 per cent (Table 4.4).

Table 4.4 Scenario 2: Summary ABB charges including minimum cargo lift and ship loading efficiency fees, 2004/05 to 2007/08

ABB service	Fee or Charge (\$/t)				Change	
	2004/2005	2005/2006	2006/2007	2007/2008	04/05 ^a to 07/08	06/07 to 07/08
Receival and handling - core	\$12.95	\$13.10	\$12.97	\$14.45	12%	11%
Site assembly fee ^b	\$0.20	\$0.20	\$0.20	\$1.20	500%	500%
Storage out-turned July	\$4.70	\$1.80	\$1.80	\$2.35	-50%	31%
Port charges:						
Port charges - core	\$9.74	\$10.48	\$11.08	\$14.14	45%	28%
Minimum cargo lift	\$0.00	\$0.00	\$0.00	\$1.50	-	-
Ship loading efficiency fee	\$0.00	\$0.00	\$0.00	\$1.00	-	-
Total port charges	\$9.74	\$10.48	\$11.08	\$16.64	71%	50%
Total charges ^c	\$27.59	\$25.58	\$26.05	\$34.64	26%	33%
Annual account fee ^d	\$0.00	\$0.00	\$0.00	\$0.25	-	-
Increase in shrinkage ^e	\$0.00	\$0.00	\$0.00	\$0.35	-	-
Total effective charge	\$27.59	\$25.58	\$26.05	\$35.24	28%	35%

^a For services introduced after 2004/05, the % change is calculated from the year of introduction.

^b Assumes 20% of the shipment is sourced from B sites (6 sites averaging around 500 tonnes per site).

^c Total charges are based on July out-turn.

^d The annual account fee was imputed on a per tonne basis assuming the client trades 100,000t/an and pays the premium service fee.

^e Based on feed barley worth \$350/tonne and an increase in the shrinkage factor from 0.5 to 0.6 per cent of total grain delivered.

Source: ABB and EconSearch analysis.

4.2 Comparison of Export Costs from Different Ports

Kwinana (Western Australia), Port Adelaide (South Australia) and Geelong (Victoria) are all major grain exporting terminals. A comparison of core charges up country and at these terminals is provided in Table 4.5.

Table 4.5 Comparison of core fees; Kwinana, Port Adelaide and Geelong, 2007/08

	Kwinana (CBH)	Port Adelaide (ABB)	Geelong (Grain Corp) ^a
Up-Country Charges^b			
Receival Service Fee	\$9.40	\$7.50	\$6.90
Storage and Segregation Fee	-	\$1.85	
Carry until Feb	\$0.80	\$0.60	\$2.60
Carry until July	\$5.40	\$2.35	\$9.10
Road Rail Out-loading Fee	-	\$2.00	\$5.20
Transport recovery charges	\$1.00	-	-
Volume Variation	-	\$1.00	-
Total Up-Country Charges (Carry Feb)	\$11.20	\$12.95	\$14.70
Total Up-Country Charges (Carry July)	\$15.80	\$14.70	\$21.20
Port Charges			
Port Out-loading Service Charges	\$7.70	-	-
Terminal Storage Fee ^c	-	-	\$1.00
General Rail Service Fee	-	-	\$1.50
Wharfage Charge	\$1.10	-	-
Site to Site Movement	\$1.60	-	-
Overtime	\$0.80	-	\$0.80
Ex Grain Corp Country Site Receival - Rail	-	-	\$1.50
Port In-load Fee ^d		\$2.54	-
Port Handling and Shipping Fee	-	\$7.65	\$9.53
Ship Loading Fee	-	\$2.00	-
Blending Fee	\$1.05	\$0.80	\$0.45
Volume Variation	-	\$1.00	-
Ship Sampling Fee	-	\$0.15	-
Total Port Charges	\$12.25	\$14.14	\$14.78
Total Charges (Carry Feb)	\$23.45	\$27.09	\$29.48
Total Charges (Carry July)	\$28.05	\$28.84	\$35.98

^a Grain Corp's charges do not include wharfage and stevedoring fees.

^b Excludes deductions for shrinkage.

^c Based on an average of two weeks to accumulate grain for export.

^d Based on 60% rail and 40% road.

Source: ABB (Marc Cooney, pers. comm.), CBH (2007) and Grain Corp (2007b).

Due to the significant differences in the marketing arrangements of the companies operating these ports, comparison of up-country and port fees must be undertaken with care. For example, CBH has a monopoly position in Western Australian grain storage and handling and can therefore apply fees whenever it deems necessary. Some companies choose to apply fees when grain is received at port whilst others can apply these fees up-country for essentially the same service.

Based on the data presented in Table 4.5, it would appear that Kwinana is the 'cheapest' port in the analysis from which to export grain. For February carry, the total core charges for Kwinana are approximately 13 per cent less than those of ABB's Port Adelaide terminal in 2007/08. Core charges at Grain Corp's Geelong terminal were approximately 9 per cent greater than those at Port Adelaide. For July carry, total charges for Kwinana are only 3 per cent less than Port Adelaide, whereas total charges at Geelong are almost 25 per cent higher.

Several non-core port fees levied by ABB have been excluded from the analysis above, as shown in Table 4.6. For example, the *harvest shipping fee* applies to all grain exported between the 15th of November through to the 31st of January. This charge of \$1.50/t will add 11 per cent to the core port fees for exporting grain through Port Adelaide during this period (i.e. \$14.14).

The *ship loading efficiency fee*, applied where actual ship loading performance achieved exceeds standard benchmarks, is scheduled at \$0.50/t if greater than 10,000mt are loaded in a 24 hour period, \$0.75/t if greater than 20,000mt are loaded and up to \$1.00/t if greater than 30,000mt are loaded. This fee has the potential to increase the cost of exporting grain through Port Adelaide by 7 per cent.

If grain is received from a third party storage facility, the *receival at port service fee* is applied (\$2.20/t), increasing the cost of exporting grain through Port Adelaide by 16 per cent. In a 'worst case' scenario, the fees outlined above could increase the cost of exporting from Port Adelaide by \$4.70/t or 33 per cent.

Table 4.6 Select ABB non-core port fees, Port Adelaide, 2007/08

ABB non-core port fees	Increase above core		Cumulative increase above core	
	\$/t	%	\$/t	%
Harvest Shipping Fee ^a	\$1.50	11%	\$1.50	11%
Ship Loading Efficiency Fee ^b	\$1.00	7%	\$2.50	18%
Receival at Port Service Fee ^c	\$2.20	16%	\$4.70	33%
Vessel Loading Fee ^d	\$1.50	11%	\$6.20	44%
Vessel Nomination Fee ^e	\$1.50	11%	\$7.70	54%
Total	\$7.70	54%		

^a Applies to all grain exported between the 15th of November through to the 31st of January.

^b Maximum charge if greater than 30,000mt are loaded in a 24 hour period.

^c For receival of grain from a third party storage facility.

^d For loading vessels of less than 15,000 tonnes capacity.

^e Maximum charge for giving insufficient notice of intent to ship.

Source: ABB and EconSearch analysis.

ABB and Grain Corp both charge a fee for loading vessels of less than 15,000 and 10,000 tonnes capacity, respectively. This *vessel loading fee* is set at \$1.50/t and \$1.32/t, respectively. For Port Adelaide, this charge would add 11 per cent to the 'base' cost of exporting grain.

The ABB *vessel nomination fee* can be avoided if sufficient notice of intent to ship is given, however, if incurred, this fee can increase export charges from Port Adelaide by up to \$1.50/t or up to 11 per cent. CBH have a similar schedule for this fee. If over 22 days notice is given there is no charge, 15 to 22 days incurs \$1.00/t and less than 15 days incurs \$2.00/t.

If the five non-core fees listed in Table 4.6 were applicable to the one shipment, it would add \$7.70/t to the 'base' port fees, an increase of 54 per cent.

Two additional fees to those listed in Table 4.6 that are levied by ABB but are less likely to be incurred are the *vessel variation fee* and the *shipping re-positioning fee*. These fees are incurred due to trader error and late arrangement changes as opposed to the previous fees that are incurred by the nature of the commercial operation of the trader or incurred involuntarily. CBH also issues penalty fees for shipping cancelation and shipping relocation.

5. Comparison of Costs Applicable at Sites Where ABB, AWB and Grain Corp Operate Competing Facilities

Ownership of grain storage and handling facilities in South Australia is concentrated in a few hands. Competing facilities are located in Maitland (AWB facility competing with ABB's Port Giles and Ardrossan facilities), Pinnaroo (AWB and ABB), Crystal Brook (AWB and ABB), Mallala (AWB and ABB) and Naracoorte (Grain Corp and ABB). With the exception of the Grain Corp facility, these sites can out-turn domestically or export from ABB's various ports around the state. Product from the Grain Corp facility is out-turned domestically or sent to Geelong for export. The focus of this analysis is grain for export.

Core storage and handling fees at these competing facilities in 2007/08 are detailed in Table 5.1. At the A class sites in Pinnaroo, Port Giles and Crystal Brook, AWB charges are 20 and 22 per cent greater than ABB for barley out-turned in February and July, respectively. Note, however, that *receival at port (3rd party)* and *shrinkage from 3rd party* are fees charged to AWB by ABB. In aggregate these two fees (\$3.43/t) are approximately equal to the difference between the AWB and ABB fees (\$3.03).

For 'B' class sites at which ABB and AWB have competing facilities, comparative costs are identical to 'A' class sites because the only variation in fees charged is the *site assembly fee*. Similarly, at Naracoorte, where ABB and Grain Corp have competing facilities, Grain Corp charges are 5 and 30 per cent greater than ABB for barley out-turned in February and July, respectively.

Table 5.1 Storage and handling fees at competing facilities in SA, 2007/08

Service	Fee or Charge (\$/t)									
	Maitland/ Ardrossan ^a		Crystal Brook ^a		Mallala ^b		Pinnaroo ^a		Naracoorte ^b	
	ABB	AWB	ABB	AWB	ABB	AWB	ABB	AWB	ABB	Grain Corp
Receival Service Fee	\$7.50	\$8.50	\$7.50	\$8.50	\$7.50	\$8.50	\$7.50	\$8.50	\$7.50	\$7.50
Storage and Segregation Fee	\$1.85	\$0.00	\$1.85	\$0.00	\$1.85	\$0.00	\$1.85	\$0.00	\$1.85	\$0.00
Carry until Feb	\$0.60	\$0.40	\$0.60	\$0.40	\$0.60	\$0.40	\$0.60	\$0.40	\$0.60	\$1.20
Carry until July	\$2.35	\$2.80	\$2.35	\$2.80	\$2.35	\$2.80	\$2.35	\$2.80	\$2.35	\$7.20
Road Rail Out-loading Fee	\$2.00	\$0.00	\$2.00	\$0.00	\$2.00	\$0.00	\$2.00	\$0.00	\$2.00	\$5.20
Out-turn fee Rail	\$0.00	\$4.00	\$0.00	\$4.00	\$0.00	\$4.00	\$0.00	\$4.00	\$0.00	\$0.00
Shrinkage on \$350 product	\$2.10	\$1.75	\$2.10	\$1.75	\$2.10	\$1.75	\$2.10	\$1.75	\$2.10	\$1.75
Volume Variation	\$1.00	\$0.00	\$1.00	\$0.00	\$1.00	\$0.00	\$1.00	\$0.00	\$1.00	\$0.00
Country Rail Shunting Fee	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.15
Receival at Port (3rd Party)	\$0.00	\$2.20	\$0.00	\$2.20	\$0.00	\$2.20	\$0.00	\$2.20	\$0.00	\$0.00
Shrinkage from 3rd party ^c	\$0.00	\$1.23	\$0.00	\$1.23	\$0.00	\$1.23	\$0.00	\$1.23	\$0.00	\$0.00
Total Up-Country Charges (Carry Feb)	\$15.05	\$18.08	\$15.05	\$18.08	\$15.05	\$18.08	\$15.05	\$18.08	\$15.05	\$15.80
Total Up-Country Charges (Carry July)	\$16.80	\$20.48	\$16.80	\$20.48	\$16.80	\$20.48	\$16.80	\$20.48	\$16.80	\$21.80

^a ABB A class site.

^b ABB B class site. No *site assembly fee* was charged for B class sites in 2007/08.

^c Based on feed barley worth \$350/tonne and a shrinkage factor of 0.35 per cent of total grain delivered.

Source: ABB (Marc Cooney, pers. comm.), AWB submission and Grain Corp (2007b).

6. Assessment of the Impact of the Volume Variation Fee

The *volume variation fee* is a new fee for the 2007/08 season. It provides for a fee to be charged in below average seasons for under-utilisation of ABB's infrastructure or a deduction in fees in above average seasons. An estimate of crop production is determined in September, based on PIRSA estimates. Rebates apply if the PIRSA estimate is less than the actual crop but no further fees apply if it is overestimated. A schedule for the *volume variation fee* in 2007/08 is provided in Table 6.1.

In the 2007/08 season the crop was estimated at between 4.0 and 5.0 million tonnes in September, equating to a fee of \$1.00/t. For all export grain this fee is charged twice; once at the time of grower receipt or transfer in store and a second time as a component of the Port Handling and Shipping Fee.

Table 6.1 Volume variation fee schedule, 2007/08

Estimate of crop in September (million tonnes)	Fee (\$/t)	Proportion of core charges (carry feb) ^a	Proportion of core charges (carry july) ^b
> 7.5	-\$0.50	-3.4%	-3.2%
6.5 to 7.5	-\$0.25	-1.7%	-1.6%
5.5 to 6.5	\$0.00	0.0%	0.0%
5.0 to 5.5	\$0.50	3.4%	3.2%
4.0 to 5.0	\$1.00	6.9%	6.5%
3.0 to 4.0	\$1.50	10.3%	9.7%
< 3.0	\$2.00	13.7%	12.9%

^a Based on *volume variation fee* charged twice as a proportion of total core charges for feed 1 barley exported through Port Adelaide (i.e. \$29.19/t in Table 4.1).

^b Based on *volume variation fee* charged twice as a proportion of total core charges for feed 1 barley exported through Port Adelaide (i.e. \$30.94/t in Table 4.1).

Source: ABB (Marc Cooney, pers. comm.) and EconSearch analysis.

In the 2007/08 season the *volume variation fee* of \$1.00/t, charged twice, contributed 6.9 per cent (carried until February) and 6.5 per cent (carried until July) of core charges for feed 1 barley exported through Port Adelaide (i.e. \$29.19/t and \$30.94/t, respectively in Table 4.1). In a poor crop year (i.e. less than 3 mt) the *volume variation fee* could contribute up to 14 per cent of total core charges.

An ex-post analysis of the *volume variation fee* for the period 2002/03 to 2007/08 is provided in Table 6.2. For all years except 2005/06 the actual harvest was below the September estimate therefore actual fees would have remained constant. A rebate would have been applied in 2005/06 when the September crop estimate was less than the actual crop.

Table 6.2 Ex-post application of the volume variation fee

Year	Estimate of crop in September (million tonnes)	Fee based on crop estimate(\$/t)	Actual harvest (million tonnes)	Fee based on actual harvest (\$/t)
2002/03	4.7	\$1.00	3.9	\$1.00
2003/04	7.7	-\$0.50	7.3	-\$0.50
2004/05	6.9	-\$0.25	5.3	-\$0.25
2005/06	6.2	\$0.00	7.1	-\$0.25
2006/07	3.2	\$1.50	2.9	\$1.50
2007/08	4.9	\$1.00	5.0	\$1.00

Source: Rural Solutions SA (2007 and previous issues) and EconSearch analysis.

From discussions with growers, traders and industry organisations it is clear the volume variation fee is a contentious fee, particularly in a drought season such as 2007/08. A number of points have been made in this regard.

- In part, the fee is seen as inequitable as it will, in general, be the growers in the higher yielding, higher rainfall areas who will bear the cost of the fee in drought years, whereas all growers will benefit from the rebate in above average years.
- On a per tonne basis it is a disproportionate fee as demonstrated in Table 6.1. In a poor season (<3 million tonnes) the fee will add at least 13 per cent to total core charges, whereas in a good season (>7.5 million tonnes) the rebate would be no more than 3.5 per cent of total core charges.
- The mechanism for paying a rebate to the client (traders) in seasons where the actual receipts are greater than the independent estimate is seen as being of little or no benefit to growers.

From ABB's view point, the volume variation factor is designed to ensure a fixed return to the company's infrastructure during low production seasons. To achieve this, the factor must be disproportionate around the average season (5.5 to 6.5 million tonnes season) as the tonnages are smaller in below average years.

Nevertheless, it does seem to provide a perverse incentive to growers in utilising the company's infrastructure. In a drought year it could be expected that, other things being equal, the domestic market share of the state's harvest would be greater than in an above average season. The incentives for growers to supply domestic markets (e.g. intensive livestock industries) will be enhanced by the volume variation fee, resulting in even lower utilisation of ABB's infrastructure in poor harvest seasons.

7. Review of the Effect of the New Charging Structure at B and C Class Sites

It can be argued that ABB can satisfy total market demand in grain storage and handling in South Australia at the lowest cost because of economies of scale and scope. “To achieve effective competition in markets that rely on that infrastructure, however, the shared use of such ‘bottleneck’ facilities at cost-reflective prices will generally be necessary” (Productivity Commission 2002). ABB does not restrict trade at B and C sites⁴ so the remaining question is whether the extra costs associated with these sites is cost-reflective.

It is clear that B and C class sites are more expensive to operate than A class sites which in previous years was reflected in a premium of \$1.00/t for receivals at these sites. Other evidence that indicates higher costs for ABB at these sites is that some of them do not operate unless a large harvest occurs. However, if these sites are not opened, they still incur maintenance costs and opportunity costs of capital, whilst not generating any revenue.

If charges at B and C class sites are set too low, new investment could be constrained. Maintenance could be delayed and these facilities would have the potential to fall into disrepair. Therefore charges are set to cover:

- marginal or operating costs; and
- fixed costs.

It is true that if marginal costs only were covered the service might continue for the economic life of the asset but the incentive to replace the infrastructure would be diminished. It is unlikely, however, that the introduction of the *site assembly fee* could result in a neat reconciliation of operating costs with volume related fees (i.e. fees charged on a per tonne basis) and a reconciliation of fixed costs with the *site assembly fee*. More likely is for the *site assembly fee* to discourage use of B and C sites by clients in years of lower than average harvest (hence no recovery of fixed costs in those years).

It is worth reiterating that the *site assembly fee* for movements to port is charged at the discretion of ABB at all B and C class sites. The fee can be waived if tonnage is out-turned in line with the ABB’s internal *site availability plan*. The fee is charged at \$3.00/t and \$4.50/t for B and C class sites, respectively. An additional condition is that if the movement order is less than 1,000 tonnes the charges will be based on the full volume. In the 2007/08 season this fee was charged just once (Marc Cooney, ABB, pers. comm.).

The relevant question is whether the *site assembly fee* is an appropriate tool to send price signals to the market to reflect the higher costs associated with these sites. The anecdotal evidence of grain traders not willing to accumulate grain at these sites is a sign that this fee is achieving the desired ABB outcome, i.e. reduced demand for the sites in low harvest seasons. However, it is not a signal that is clear to growers as the *site assembly fee* is charged only to traders. It is up to traders to decide if they will take the risk of accumulating the required tonnage. Despite assurances from ABB that they have discretion to waiver the fee, all the power in the market, in this case, lies with ABB.

⁴ Which comprise 72 per cent of ABB’s storage and handling sites, although just 15 per cent (approximately) of capacity.

Rather than being an efficient price signal in the market, the site assembly fee could be better characterised as an effective market lever for ABB.

8. Conclusions

The need for this analysis is indicative of the complexity of grain storage and handling charges in South Australia. Many of ABB's fees are variable and at the discretion of management, adding to the risks for grain traders and growers. It is apparent, however, that ABB does not behave differently to other comparable grain storage and handling companies in Australia. Because of the monopoly marketing position of many of Australia's grain handlers, it is difficult to compare across firms. Grain handlers can, for example, shift fees along supply lines with low levels of risk of losing market share to competitors.

It is clear from the analysis that ABB's fees and charges have increased relatively rapidly over the past four years (i.e. above CPI), particularly in 2007/08. The ABB maintains that its current fee structure is necessary to put the company on a path to sustainable profitability which will allow it to maintain investment in new and existing infrastructure necessary to support South Australia's grain industry. It is apparent that the complexity of the charging structure could, in some cases, have led to inefficiencies in the system through inappropriate pricing signals to growers and traders. Some of these inefficiencies are summarised below.

The purpose of this analysis was not to evaluate the overall level of ABB fees and charges but to provide an analysis of the impact of the new and changed pricing structures on growers and other industry participants. As outlined in Section 1 of this report, the brief for the project asked that four broad issues relating to ABB fees and charges be addressed. Conclusions from the analysis undertaken for each of the issues are provided below.

Impact of the new charging structure

The overall mix of changes in rates for storage and handling in the 2007/08 season has resulted in relatively small increases for upcountry site costs where competition exists. Port charges, however, have increased significantly where SA clients cannot avoid the ABB ship loading infrastructure. From discussions with industry members (growers and traders) it is obvious that the ABB price book is very complex and this is exacerbated by the large number of discretionary charges. The confusion among ABB clients when trying to determine costs can be simply interpreted as uncertainty and this results in reduced prices posted to growers.

The export pathway charges have increased markedly and have the most uncertainty. Many of these charges are at penalty rates to the client but are levied in a manner that does not present a clear signal to the grower and could, therefore, have limited influence on grower behaviour.

For example, the implementation of the carry costs is confusing. ABB now charges the client for carry costs incurred by warehousemen during the October to January harvest period but charges the warehousemen the cost of the warehousing after January. The signal from the charge is lost to growers as it is levied to buyers during harvest and factored into pricing reflecting the average cost. Buyers need to determine how long grain has been in warehouse before finalising a price, based upon how much carry has been incurred.

Another example of where the ABB pricing policy can have a perverse impact on market behaviour is the port handling and shipping fee. A \$2.00/t extra charge is levied

when a client chooses to control their own accumulation of stocks for export. The base Port Handling and Shipping Fee is for “export easy”, where ABB executes the whole export accumulation program on behalf of the client. “Export standard” allows the client to assemble their own stocks but they incur a penalty of \$2.00/t which does not seem aligned to costs incurred by ABB. This encourages clients to choose export easy although it means that clients will have little negotiating strength or transparency in freight rates paid. The alternative is to pay an additional \$2.00/t for export standard and arrange movements themselves. This will, however, expose the client to ABB out-turn up country and receipt at port on a fair basis.

The stock swap fee is another charge that sends a confusing signal to the trade. The cost for a stock swap service is fixed up to 50 tonnes (\$25/swap), which means that the cost per tonne *decreases* as weight increases (up to 50 tonnes). The cost per tonne is constant for swaps of 51 up to 100 tonnes (\$0.50/tonne) and *increases* thereafter. This pricing structure means that, on a cost per tonne basis, a swap of 33 tonnes costs about the same as a swap of 500 tonnes (\$0.75/t) and a swap of 25 tonnes is the same as one of 1,000 tonnes (\$1.00/t). Swaps in the weight range of 50-100 tonnes incur the lowest fee.

The 2007/08 port in-load fee was specified at different rates for rail (\$2.10/t) and road (\$3.75), whereas previously a uniform rate was charged for both modes of transport (\$1.75/t in 2006/07). The analysis undertaken for this report assumed a weighted average cost of \$2.54/t for 2007/08 based on historical usage (approximately 60 per cent rail, 40 per cent road). The view of several industry members was that actual rail usage in 2007/08 was significantly less than the historical average; possibly less than 30 per cent of the total and that usage would remain at that level or even lower while there is sustained competition for available rolling stock. The implication is that the port in-load fee used in this analysis (\$2.54/t) possibly underestimates the actual average fee for 2007/08. Further, the port in-load fee is likely to increase even more in the future as road usage continues to expand.

The blending fee is another fee that is confusing to some industry members. This is partially because the fee is charged for activities other than just blending. A simple renaming of the fee to better reflect the nature of the charge would at least clear up this confusion. Perhaps a more important issue with this fee is that it doesn't seem to reflect the cost of the service provided and therefore may distort behaviour of traders and accumulators. For instance, the topping up of a 50,000 tonne shipment of F1 barley with a small quantity of F2 will incur a fee across the whole parcel. If the fee is to cover segregation of the small volume grain, a fee charged directly for those services would provide a better price signal to the trade.

Comparative analysis of sites

Ownership of grain storage and handling facilities in South Australia is concentrated in a few hands. At the A class sites in Pinnaroo, Port Giles and Crystal Brook, AWB charges are 20 and 22 per cent greater than ABB for barley out-turned in February and July, respectively. Note, however, that *receipt at port (3rd party)* and *shrinkage from 3rd party* are fees charged to AWB by ABB. In aggregate these two fees (\$3.43/t) are approximately equal to the difference between the AWB and ABB fees (\$3.03).

For the one 'B' class site at which ABB and AWB have competing facilities (Mallala), comparative costs are identical to 'A' class sites because the only variation in fees charged is the *site assembly fee*. Similarly, at Naracoorte, where ABB and Grain Corp

have competing facilities, Grain Corp charges are 5 and 30 per cent greater than ABB for barley out-turned in February and July, respectively.

Competitive pricing at B and C sites

The annual account premium service fee is \$25,000 which enables the client to post prices at all sites (A, B and C). From consultation with industry it appears that for the 2007/08 season most clients opted for the standard service fee (\$5,000) which allows clients to post prices at A sites only. This precluded pricing at over 75 sites, being the B and C sites. The standard service fee is compulsory for anyone wishing to use the ABB system.

Many of the smaller ABB clients buy only 1-5,000 t/an in the ABB system so it is difficult for them to afford the \$5,000 let alone \$25,000. This can make them uncompetitive in accumulating parcels of grain to sell to larger clients. The implication for growers is that there will be fewer small trades occurring at B and C sites and reduced demand in those locations and in the market segments serviced by smaller traders. This, in turn, can mean depressed prices for growers.

Volume Variation Fee

From discussions with growers, traders and industry organisations it is clear the volume variation fee is a contentious fee, particularly in a drought season such as 2007/08. The fee is seen as inequitable in its application (growers in more reliable areas will mostly pay the fee), disproportionate (the fee in poor seasons is higher than the rebate in good seasons) and confusing (the mechanism for returning a fee to growers in years where the actual harvest is greater than the forecast harvest is unclear).

From ABB's view point, the volume variation factor is designed to ensure a fixed return to the company's infrastructure during low production seasons and is an appropriate mechanism for that purpose. Furthermore, the fee needs to be higher on a per tonne basis in poor seasons to achieve the revenue objective.

From the consultant's perspective, however, the volume variation factor does seem to provide a perverse incentive to growers in utilising the company's infrastructure. In a drought year it could be expected that, other things being equal, the domestic market share of the state's harvest would be greater than in an above average season. The incentives for growers to supply domestic markets (e.g. intensive livestock industries) will be enhanced by the volume variation fee. While the aim of the fee is to overcome the problems of variable harvest volumes, it is likely that the effect of the fee will be to increase that variability.

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Disclaimer

We have prepared the above report exclusively for the use and benefit of our client. Neither the firm nor any employee of the firm undertakes responsibility in any way whatsoever to any person (other than to the above mentioned client) in respect of the report including any errors or omissions therein however caused.

Appendix I Terms of Reference

26 April 2008


**SOUTH AUSTRALIAN
 FARMERS FEDERATION**
 ABN: 75 266 051 838
 Level 3, 122 Frome Street
 Adelaide, SA 5000
 PO Box 6014,
 Halifax Street, SA 5000
 Telephone: 08 8232 5555
 Facsimile: 08 8232 1211
 Website: www.saff.com.au

Dear

Post-harvest Comparative Analysis of Storage and Handling Charges

I am writing to inform you that SAFF Grains Council has commissioned Econsearch Pty Ltd, an independent consulting company, to undertake a Post-harvest Comparative Analysis of Storage and Handling Charges, and to ask for your input towards this analysis.

The terms of reference for this study are:

1. Modelling of available data to determine the impact of the new charging structure on farm gate returns and FOB charges. Specific criteria that should be used for the modelling includes:
 - a. Grain delivered to Port Adelaide, with Port Adelaide as the base for other South Australian ports.
 - b. Based on feed 1 barley.
 - c. Comparison performed over a four-year period, up to and including 2007-2008 rates.
 - d. Comparison of costs to export from Pt Adelaide, Kwinana and Geelong.
 - e. Based on different shipping scenarios to factor in the impact of various shipping 'efficiency' charges. This will be developed in consultation with industry to ascertain the most probable scenarios being tested under this analysis. These assumptions should be clearly stated in order to explain the difference between "core" storage and handling charges, "efficiency" penalties, and any additional costs.
2. Provide a commentary based on the differences observed and the assumptions used in the comparisons analysed.
3. Perform a comparison on the costs applicable at sites where both ABB Grain, AWB Grainflow (e.g. Maitland, Crystal Brook, Mallala and Pinnaroo)
4. An analysis of the storage and handling agreements and resulting charges in South Australia over a period of three years.
 - a. This analysis should, if possible, be broken down into a fragmentation on costs to look at the increases at in-land storage facilities, port storage facilities, and port loading belts.
5. Assess the impact of the Volume Variation Factors as a percentage increase/decrease on storage and handling charges and FOB costs for the six volume variation bands, and comment on the potential net cost/benefit to growers.
6. Review the effect that the new charging structure at B and C sites has on competitive pricing, compared with A sites.

I encourage you to assist the consultants particularly if they contact your organisation, and also to invite you to make a submission (in confidence if considered necessary) addressing the terms of reference before 9 May to Econsearch Pty Ltd, 214 Kensington Road MARRYATVILLE SA 5068, fax 8431 7710 or email jbmorison@econsearch.com.au.

Yours sincerely



Peter Treloar
 Chair – SAFF Grains Council

Appendix 2 List of Submissions

In response to the letter distributed by the Chair of the SAFF Grains Council inviting input to the analysis (Appendix I), written submissions were received from the following individuals and organisations.

1. ABB Grain Limited
2. AWB Limited
3. Corey Blacksell
4. National Agricultural Commodities Marketing Association SA Inc
5. Philip Wilsdon