

## **Submission to Australian Competition and Consumer Commission**

### **From Ridley Agriproducts**

### **Re: AWB Limited and Graincorp Operations Ltd Supply Chain Joint Venture Proposal**

#### **Introduction**

Ridley AgriProducts (RAP) Pty Ltd is a 100% owned subsidiary of Ridley Corporation Ltd, a listed Australian company focused on two core business activities of salt and animal stock feed/nutrition.

Ridley AgriProducts has established itself as a clear leader in the Australian animal nutrition market. The Company produces a range of high performance products, which meet the specific need of Australia's livestock, fish and pet industries.

Operating from some twenty-three manufacturing and distribution sites located across Queensland, NSW, Victoria and South Australia Ridley AgriProducts produces some 1.5 million tonnes of stock feed annually, consuming in excess of 1.0 million tonnes of grain.

#### **Domestic Market Impact**

RAP as Australia's largest domestic stock feed company has concerns surrounding the proposed JV as we believe it has the potential to materially lessen competition within the logistics and storage supply chain within the Australian grain industry.

The Australian stock feed industry is highly competitive with the majority of our feed inputs being marketed/sold to Intensive/Pastoral livestock companies who compete in global food markets. As a consequence any arrangements, which have the potential to push up the raw material costs for our business and impact on, the global competitiveness of our customers is of concern to us.

In terms of the proposed JV RAP is concerned that our Company must now compete for storage with companies who have monopoly or near monopoly powers over core components of our business needs, namely raw materials and storage. Unlike the JV parties RAP does not have the same access to the export channels for commodities such as wheat and the other grains.

Importantly we question whether the JV would be being pursued if the AWB did not have monopoly export powers over wheat or Graincorp did not have the vesting powers over a range of cereals and oilseeds in NSW (notably barley, sorghum and canola).

In addition between Graincorp and the AWB they control nearly 100% of the up country and export grain storage/terminals across eastern Australia.

As domestic consumers RAP has few options but to accept the gazetted handling and storage fees charged by the AWB and/or Graincorp. We manufacture compound feed 365 days per year and by definition need to outturn grain on a weekly if not daily basis. Due to this nature of our business Graincorp/AWB already charges us higher outturn fees and minimum tonnage requirements.

RAP contends that if the JV proceeds we could be priced (locked) out of the 'efficient export' storages, as we will not be able to offer the high outturn rates. This will create a secondary storage market for domestic consumers such as ourselves who by definition will be required to pay higher receipt and outturn fees compared to the JV, thereby impacting on our ability and competitiveness to source raw materials.

As an aside Graincorp, due to the domination of storage across eastern Australia already charge what we contend is an excessive fee for grain/oilseeds stored in their facilities as at the end of October each year.

Clearly in the event of the JV being approved the current charges have the potential to be increased for domestic consumers such as RAP as we will never be able to compete with their proposed export freight movements.

RAP also suggests that the domestic market requires clarification as to what the arrangements will be between the JV and the AWB/Graincorp in terms of the AWB's Golden Rewards program. RAP believes that the JV will have the capability to pay higher prices for feed/GP quality wheat's at upcountry silo's due to their preferred freight and storage arrangements (via the AWB's Pools) and then AWB/Graincorp allowing this wheat to be blended at port (and growers happy to do this as they have received the higher farm gate prices due to the lower export freight rates).

RAP also questions the argument by Graincorp and the AWB that as this JV is only focused on the export pathway it will have no impact on domestic costs. Given that AWB/Graincorp are the two dominant east coast storage providers we are concerned about possible collision on storage/freight costs going forward. We need to try and establish what the possible flow on costs to the domestic market will be as a result of the export movements. Their claim that the JV will not service the domestic market appears simplistic and fails to acknowledge the single desk selling powers of the AWB (and as we have found out this year once the AWB has wheat in their pools it is only released at a premium to export parity).

### **Private Storages**

In the event that the JV was approved RAP believes private storage operators will be disadvantaged as they will not have the same influence or bargain powers to negotiate freight rates as the AWB/Graincorp have. The assertion that the JV parties will continue to compete in storage and handling is mischievous as the private storage operators will not be able move equivalent volumes through their storages. In addition they are unlikely to receive the same treatment regarding export freight rates from the rail providers as the JV entity. This is likely to lead to higher private storage costs, which will discourage investment in this sector. RAP believes this will result in the AWB/Graincorp becoming the sole storage operator's thereby reducing competition in this sector and more importantly pushing our raw material costs higher.

### **Conclusion**

RAP would like to express serious reservations about the proposed JV between AWB/Graincorp. We strongly believe that this JV has the potential to totally control the Australian east coast supply chain and therefore result in increase feed costs to companies such as ours. There is a real possibility that RAP will be required to source grain from less preferred supply points or via less cost competitive storage locations. RAP will be forced to pay higher prices for raw materials as we bid grain and other raw materials away from the JV's export pathway.

RAP therefore is submitting these comments, as we believe they require consideration by the ACCC prior to your final decision.

Andrew Kelso  
National Purchasing Manager  
16 July 2004