<u>Wheat Export Marketing Arrangements</u>

Submission from the South Australian Farmers Federation Grains Industry Committee, April 2010

The South Australian Farmers Federation Grains Industry Committee (SAFF Grains) is disappointed with the draft report of the Productivity Commission.

Unlike the Productivity Commission, SAFF Grains has found that deregulation to date has not given the benefits of competition that were expected, particularly for South Australia.

South Australia is different to the other States with the two gulfs and seven ports, and half the tonnage of Western Australia, and to date any competition has been largely stifled. There is very little up-country competition and this is unlikely to change when any company considering building further up-country facilities knows that eventually they will still need to use Viterra's ports, with its control of the shipping stem as well as control of the majority of road and rail logistics in South Australia grains export supply chain.

Grain prices in South Australia are low compared to Western Australia and the Eastern States because of the increase in the risk with dealing with the Viterra-controlled supply chain in this State. Buyers are going elsewhere to buy their grain and are only buying from South Australia as a last resort.

SAFF Grains urges the Productivity Commission to compare prices differences between States and to investigate why.

In our initial submission, SAFF Grains expressed concern that a monopoly has continued to flourish in the grains industry supply chain in South Australia to the detriment of grain growers. Monopoly control of the grains supply chain has increased the risk for the execution of grain sales for all participants in the industry.

There are issues dealing with accountability and competition that are currently missing from the supply chain for the South Australian grain industry. To increase productivity in the supply chain from the farm gate to the ship and to ensure all participants in the supply chain prosper, there is a need for transparency and full, open and fair access of the supply chain. Unfortunately the Productivity Commission appears to have ignored the situation in South Australia.

The position of SAFF Grains is to improve the accountability to help whole of industry reduce their risk to trading in South Australia. There is the need for real competition that can lead to efficiencies in the supply chain so that the whole industry operates in a streamlined and cost effective way. To increase the number of participants there is the need to encourage risk and reward, even for Viterra.

In our intial submission, SAFF Grains highlighted anti-competition with the shipping stem (we gave several examples) and the lack of an information flow.

SAFF Grains also highlighted that Viterra prices third party bulk handler throughput rates through its ports at rates that make the use of any upcountry competing storage options outside of their supply chain untenable. As a sole provider of ship loading services for bulk grain in South Australia, Viterra has effectively complete control over the road and rail export logistical task, particularly as 80% of South Australian grain is exported. Their storage and handling agreement is structured in a way to ensure that third party storage providers cannot compete with their assets nor provide any competitive logistical services to bring grain to port.

Recently SAFF Grains were given details of how Genesee & Wyoming Australia Pty Ltd, who have a five-year agreement with Viterra have put unreasonable controls on their rail-lines in South Australia and are charging exorbitant fees. They run trains and control truck access. On their line from Dry Creek to Port Adelaide they require an additional pilot – while only a distance of 10 km, the charge for the pilot is $2.00 per mt. It has been calculated that for one train carrying 2,200 tonnes over 145 km of track, that Genesee & Wyoming Australia would charge $59,400 compared with V-Line $6,224, Australia Rail Track Corporation $2,482 and NSW Rail $2,317. This pricing structure virtually precludes any other company but Viterra from using rail in South Australia easily and cost effectively. There is also an additional rail weighing fee of $2.75 a tonne (2 to 5 cents would be reasonable).

Similar unreasonable charges appear to apply to anyone who wants to use the Viterra-controlled supply chain from the farm-gate through to the port and onto the ships.

SAFF Grains support deregulation. However the benefits of deregulation are not happening in South Australia because of the control of the supply chain by Viterra. Other participants are not willing to buy grain in South Australia because of the increased risks such as the high penalties for cancelling shipping, restrictions within the shipping stem, and high storage and handling charges.

The Productivity Commission needs to address this issue.