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Essential Services Commission of South Australia

GPO Box 2605

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To whom it may concern,

RE: South Australian ports pricing and access review 2022

Grain Producers SA ('GPSA') is the peak industry body for South Australian grain growers. GPSA is non-political and represents producers to government, the community and industry, including grain marketers, exporters, storage and handlers, researchers and farm input suppliers. We develop and implement policies and projects that promote the economic and environmental sustainability of South Australian grain growing businesses.

We welcome the opportunity to provide this written submission to the Essential Services Commission of South Australia ('the Commission') on the review of the ports access regime and the ports pricing regime 2022.

GPSA are willing to provide further comment prior to the Commission forming a view as to whether the regimes should continue from 31 October 2022 for a period of five years.

If you have any queries, please don't hesitate to contact me on 1300 734 884.

Yours sincerely,



Brad Perry

CHIEF EXECUTIVE OFFICER

BACKGROUND

Grain Producers SA (GPSA) is the peak industry body representing the 4,500 grain farming businesses in South Australia.

South Australian growers plant more than four million hectares of cereals, pulses and oilseeds annually. South Australia produces an average of eight million tonnes of grain each year, which contributes more than four billion dollars to Australia's gross food revenue.

In an average year, 80 per cent of South Australian grain is exported to over 45 countries around the world. Over 50 per cent of South Australia's grain harvest was exported in 2019-2020, despite unique drought conditions drawing significant domestic supply to Australia's eastern states. Hence, the ports access regime ('access regime') and the ports pricing regime ('pricing regime') have a critical and tangible impact on South Australia's grain industry.

The profitability of the grains industry is challenged by the ever-increasing costs of production. Growers across Australia are currently facing pressures created by global supply disruptions and unprecedented increases in the cost of key inputs such as fertiliser, chemicals and machinery.

Supply chain costs are a significant concern for South Australian growers, including transport, storage and handling, and vessel loading charges to Free on Board an export vessel. Growers bear the cost of a fair and efficient supply chain to ensure ongoing access to overseas markets and to remain globally competitive. GPSA supports appropriate regulatory settings to promote a competitive and cost-effective export supply chain in South Australia.

RECOMMENDATIONS

GPSA submit that the Commission should recommend the ports access regime and the ports pricing regime be extended for a further five-year period, from 31 October 2022.

The purpose of the regimes is to provide for access to proclaimed South Australian ports and for the provision of maritime services on fair commercial terms. They intend to achieve this through a negotiate-arbitrate framework which encourages the operator and customer to reach agreement on access terms in the first instance. This includes reaching agreement on prices for those services.

GPSA is not privy to commercial access agreements reached between the operators (Flinders Ports and Viterria) and their customers. However, it is a well-established practice that the costs for the port provider and bulk storage and handler are passed onto the grain producers who have few (if any) alternatives other than to sell their grain to Flinders Ports or Viterria's customers.

As such, GPSA makes this recommendation on the following broad grounds:

Competition is insufficient to warrant the repeal of the regulatory regimes.

GPSA acknowledge the potential argument that emerging port competition, namely the establishment of a grain export terminal at Lucky Bay and a pending capacity at Wallaroo, lessen the need for regulation due to a reduction in market power.

However, it is GPSA's understanding that the current export market landscape in South Australia is insufficiently competitive to mitigate the risk and potential for monopolistic port service operators to exercise market power. That is, a real and tangible risk remains that access to port services may be granted under unfair circumstances.

The regimes have enabled limited interport competition to emerge.

The implementation and continuation of the regimes have encouraged emerging port market competition.

Specifically, the regulation has enabled the development of limited interport competition which otherwise may not have been feasible. This can be evidenced by emerging competition on the north-western Eyre Peninsula and by port operators at Port Adelaide's inner harbour.

GPSA believes that if the regimes are revoked, this may discourage, impede, or undercut emerging competition. Such action would effectively revert the port market to its pre-regulation condition, where no substitutes exist, and port operators have significant potential to increase prices and exercise market power.

Hence, GPSA submit that the regimes should remain to enable both current and further competition to develop.

The regimes successfully increase disclosure and transparency which alleviates risk for growers.

Open and transparent information between parties can encourage commercial outcomes. The current regulatory regimes enable growers to access valuable pricing information, the benefit of which is significant. Further, GPSA believe the pricing regime, which takes the form of monitoring and public reporting, creates critical public accountability and transparency. Increased transparency works to alleviate a degree of risk for growers and enables them the opportunity to negotiate fair commercial agreements.

GPSA suggest the benefit provided by the current level of price monitoring and reporting indicates a need for the regimes to continue.

CONCLUSION

GPSA supports appropriate regulatory settings to promote a competitive and cost-effective export supply chain in South Australia.

It is GPSA's submission that the Commission should recommend the ports access regime and the ports pricing regime be extended for a further five-year period, from 31 October 2022.

GPSA makes this submission on the broad basis that;

- Competition is insufficient to warrant the repeal of the regulatory regimes;
- The regimes have enabled export competition to emerge; and
- The regimes successfully increase disclosure and transparency alleviates risk for grain producers.