

18<sup>th</sup> November 2016

Stuart Peevor  
Manager Pricing and Access  
Essential Services Commission  
GPO Box 2605  
Adelaide SA 5001

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Dear Mr Peevor,

**Re: 2017 Ports Pricing and Access Review.**

Please find following a submission from Grain Producers SA Ltd (GPSA) regarding ESCOSA's issue paper on 2017 Ports Pricing and Access Review.

GPSA thanks ESCOSA for the opportunity to make this submission and would welcome an opportunity to meet with you to discuss this submission or answer any specific questions or concerns.

Yours sincerely



Darren Arney  
Chief Executive Officer

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**Grower-driven advocacy for  
a profitable grains industry**

***This submission is tendered in support of the continuation of access and price regulation.***

## **About Grain Producers SA**

Grain Producers SA (GPSA) is the peak industry body representing South Australian grain producers.

GPSA's objectives are to improve the profitability and sustainability of South Australian grain producers through:

- Representing the views of South Australian grain producers to government, industry and the community on grains issues;
- Working with an effective state farming organisation and other commodity groups to represent South Australian grain producers on cross commodity issues;
- Working with government and industry to develop policies around creating and maintaining an efficient, accessible and cost effective supply chain;
- Working with government, industry and institutions to improve the technical and business skills of South Australian grain producers
- Working with Research, Development and Extension organisations to identify and disseminate research priorities in grain production, handling and management
- Supporting an effective national representative organisation to work with government around national initiatives to support the grains industry
- Providing a program to include and develop young farmers to be prepared to take on leadership roles within the SA grains industry.

## **Background**

South Australia's grain industries are large and diverse, making a significant contribution to the economy. With an estimated farm gate value of over \$1.8 billion and export value of \$2.2 billion, the grains industry is not only a major contributor to the economy it is also a significant export earner. In addition, the agribusiness sector is a major provider of jobs employing approximately 1 in 5 South Australian workers.

Despite the volume, value and importance of the grains industry to this state, increasingly we are seeing the profitability of farming being challenged by ever increasing costs and community emphasis on urban issues and opportunities. A major cost to grain producers across South Australia is the cost of getting grain from farm gate to port. GPSA welcomes your review of the port access and ports pricing component of the supply chain.

Please find following answers to the relevant questions for grain producers below:-

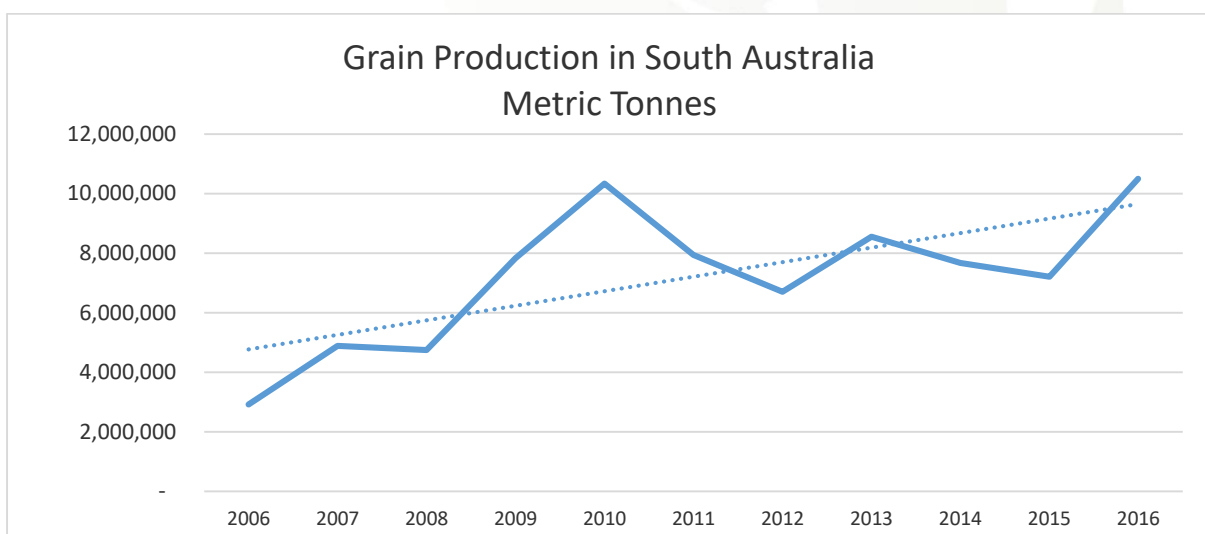
### **Q1. Is there any evidence of misuse of market power by providers of regulated port infrastructure services?**

GPSA is not privy to negotiations that occur between the service provider and its client or potential clients. GPSA's primary concern is the lack of transparency around the negotiations and ultimately agreements between supplier and client as these costs are passed onto the grain producer without recourse due to the monopoly nature of the provider and client.

In addition, when the exporter (client) and the service provider, in this case the bulk handler are vertically integrated, one must consider if this disadvantages the competitor exporters in price negotiation.

**Q8. Are there any key industry developments in the foreseeable future that may impact the need for, or type of, regulation?**

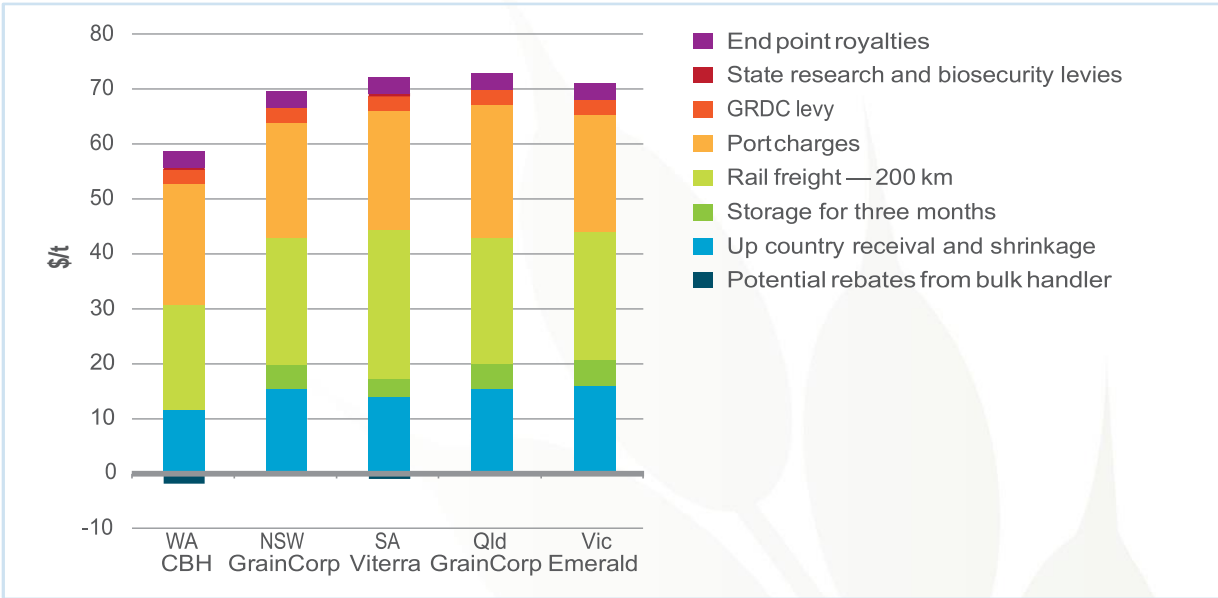
Grain production continues to grow in volume (see graph below) and in addition to this long term trend very recent announcements by the Minister for Agriculture, Food and Fisheries suggest volumes of grain produced this harvest will reach a new record of 10.5 million tonnes. This increase in production is not only due to timely rain events, but improved agronomic practices by grain producers and the utilisation of varieties that are returning higher yields. Research and Development will continue to drive production increases in the grain industry.



Source data: PIRSA Crop Reports

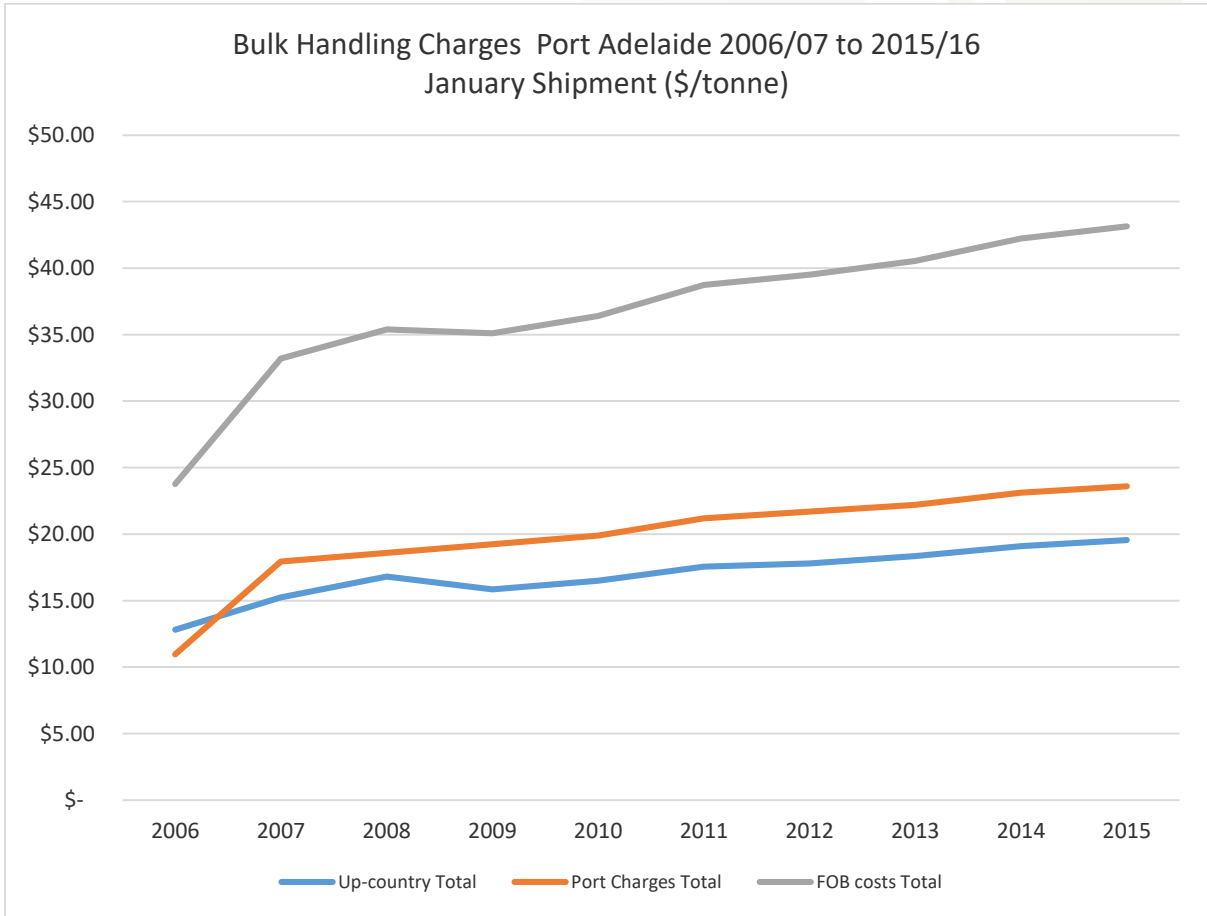
**Q10. Is there a need for more regulatory consistency and/or clarity across the supply chain and transport modes?**

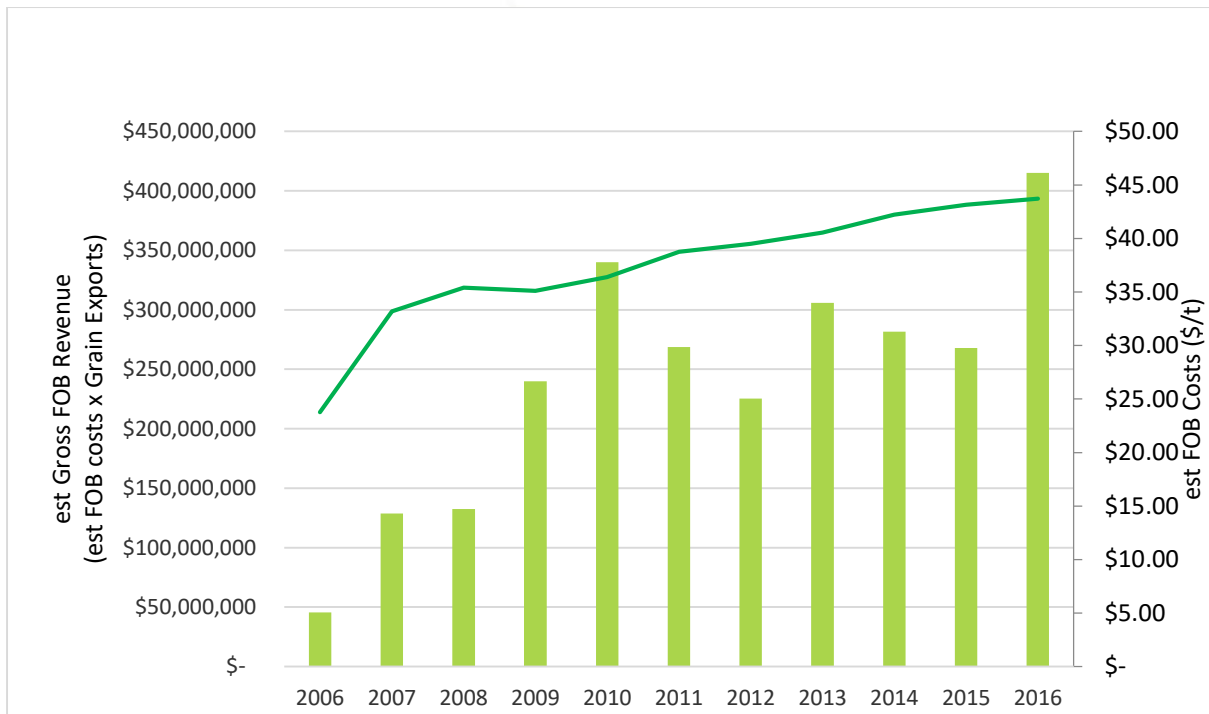
South Australia Grain producers already contribute significantly to grain handling and logistics in excess of \$400 million per annum through storage and handling charges and freight differentials. Grain storage handling and logistics account for approximately 30% of costs in the production of grain in South Australia. Of this, port charges are a significant component as illustrated in the chart below prepared by AEGIC.



Source: AEGIC 2013

Port Charges have continued to increase over the last decade with FOB revenue set to reach in excess of \$400,000,000 this harvest based on the Minister for Agriculture, Food and Fisheries estimate of 10.5 million tonnes of production.





South Australia, and in particular the Eyre Peninsula is facing significant change in transport and supply chain infrastructure. Some of these include:

- Review of the current rail agreement between Viterria and GWS – there are only 2 harvest seasons remaining for the current rail transport arrangement.
- Proposal for alternate port projects: Lucky Bay, Cape Hardy, Port Bonython, and Thevenard.

These projects will result in potential significant investment requests to government and other stakeholders for the port infrastructure and the supporting road and rail infrastructure.

In addition, these competitive ports will introduce a new grain transport dynamic including impacts on the current rail network viability that needs to be further explored.

GPSA is urging government to follow through on the tripartisan recommendation determined from the parliamentary select committee into grain handling to undertake an ESCOSA review into the grain supply chain.

This review will assist in establishing arrangements that provide the basis for pricing of and access to grain storage and bulk handling facilities (including up-country services) that are consistent with the requirements of a competitive and deregulated wheat export market. In addition, the review will provide an independent foundation for the planning of the Eyre Peninsula infrastructure investment and for the state as a whole.

The full report can be viewed here:

<https://www.parliament.sa.gov.au/committees/pages/committees.aspx?ctid=3&pid=52&Cid=255>

**Q11. Is the level and type of infrastructure covered by the regimes suitable, having regard to the level of competition for the infrastructure services? Should there be inclusions or exclusions?**

GPSA believes there is a strong need for up country infrastructure to be included in ESCOSA's regulatory regime. Viterra has built an additional 500,000 tonnes of storage capacity across various South Australian receival sites in this year alone. There has been very little activity from competitors in storage capacity which indicates a significant increase in market share for Viterra. The additional storage of 500,000 tonnes this year alone exceeds the entire storage capacity of Viterra's nearest competitor.

As shown in the charts above the FOB revenue generated is a significant amount estimated to be in excess of \$400 million this year. All of these factors create a significant barrier to entry for other operators.

This extremely dominant, near monopolistic situation calls for an entire supply chain review as recommended by the State Parliamentary Select Committee. GPSA firmly believes ESCOSA should use this Ports Pricing and Access review as an opportunity to review the entire supply chain because since the deregulation of the wheat board and the consolidation of Ausbulk and ABB there has not been any significant new players entering the market. The costs to grain growers are significant and when there is no other way for grain growers to get their grain to port this entire supply chain is an essential service and needs to be reviewed by ESCOSA.

To illustrate this point please see Attachment 1 – Shipping Stem. Looking at the confirmed bookings for the two major ports in Adelaide – Outer Harbour and Port Lincoln, all but one entry is taken by Glencore, the parent company of the bulk handler Viterra.

**Recommendation**

GPSA believes that ESCOSA should recommend that ongoing access regulation is necessary, and should not allow the Access Regime to expire.

In addition, GPSA believes that price regulation should continue for a further five-year period.

Finally, GPSA calls for the recommendations made in the final report of the Select Committee on the Grain Handling Industry, specifically that the State Government authorise the Essential Services Commission of South Australia (ESCOSA) to undertake a review of the entire grain supply chain with the objective of establishing arrangements that provide the basis for pricing of and access to grain storage and bulk handling facilities (including up-country services) that are consistent with the requirements of a competitive and deregulated wheat export market.

GPSA welcomes the opportunity to meet with ESCOSA to discuss this further.

For further information, please contact Darren Arney, CEO of Grain Producers SA on:

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