From:	John
To:	Peevor, Stuart (ESCOSA)
Subject:	SA Grain Supply Chain Review
Date:	Friday, 12 May 2017 10:38:56 AM
Attachments:	AusRailLoader over rail.jpg

Stuart Peevor
Manager, Pricing and Access
ESCOSA

10The May 2017

Enquiry into the South Australian grain supply chain.

Dear Mr Peevor,
I offer comments in relation to the current supply chain costs for grain being borne by SA farmers. My background in relation to this enquiry is;

- I am a retired CPA
- From 1981 to 1985 I was MD of Northern Territory Freight Services P/L which became by that time the biggest freight company servicing the NT from SA. We eventually constituted 40% of the freight traffic on the Adelaide to Alice Springs rail line.
- I worked for 20 years in the SA grain industry including AGM Admin and Finance and Deputy GM of SACBH, State manager of AWB Ltd and Executive Manager Supply Chain Strategy of Ausbulk
- A member of the SA Freight Council for several years.
- A member of the SA Deep Sea Port Committee for its duration. In this capacity I provided the economic case for the dredging of Outer Harbour and Port Giles.
- I visited Canada [Canadian Steamships Line] and Norway [Jebsen Shipping] to review self unloading vessels. As a result CSL did bring a 15,000 t capacity self unloader to South Australia which transported grain from both Thevenard and Port Pirie to Port Lincoln. I also visited the USA to review the Mississippi barge transport of grain as well as Cargill's mid stream transfer unit that transferred grain mid river from barges into panamax size vessels.
- The attached photograph is of a fast mobile rail loader that I invented which can load grain at 1000 tph instead of the restricted elevator speed of 150 TPH common to most SA grain silos. Six of these prototypes were built at a total cost of approx $4 million.
- My roles in the grain industry always focussed on supply chain costs and charges amongst other responsibilities.
- My last task was the acquisition of land and concept design of the new Outer Harbour grain terminal. This is the only just-in –time grain terminal in SA, it can unload trains and load ships at 2,500 tph.

Although retired I have maintained an interest in the grain industry seeing it gave me a livelihood for 20 years and is a very important part of SA's economy.

I note that Viterra's charges for grain handling, as opposed to the freight component, is almost double that of CBHWA and significantly more than Graincorp's. In my time in the industry SA grain handling charges were the lowest in the country and it is difficult to see why this has changed so significantly. This is a particularly concerning situation for several reasons including the following:

- As most grain produced in SA is exported the SA grain handling system with its combination of silos and ports is very much in a monopoly situation. The capital cost of competing, particularly at ports, is a major deterrent to competition as is the advantage of an existing well integrated export chain.

1. The grain supply chain in SA has a significantly easier task than is found in other states as a far greater proportion of the grain is delivered direct to port as SA growers can deliver ex farm to port terminals that have with significant storage capacity on Eyre Peninsula, York Peninsula and in the Port Adelaide catchment area. All have close proximity grain growing areas. Consequently much of the grain is handled only once instead of twice on the export pathway which is a major advantage in several ways.
2. The grain storage facilities in SA are considerably newer than those on the eastern coast as they were constructed at a later date. SACBH did not commence till the mid 1950's and then as a private entity. By contrast each of the three east coast systems now comprising Graincorp, i.e. Vicgrain, NSW GHA and Bulk Grain Queensland commenced in the 1930's as government entities. The east coast silos are smaller and much closer together than the SA ones reflecting the comparisons of truck sizes at the different times. SACBH as a privately owned grower entity also had better access to capital and was able to build a higher proportion of concrete and steel silos that were less labour intensive.
3. The WA system also started before the SA system and to a lesser extent similar comparisons apply.
4. The much shorter distance from farm to port or country silo to port in SA is a major inherent advantage both in terms of distance related costs and the ability to use road transport instead of rail or in conjunction with rail.
5. The reduced handling in SA also reduces product losses that occur with each handling of grain.
6. While the SA grain storage system was sold to Viterra, given its monopoly status there is no acceptable basis for the buyer to assume or develop a business plan that incorporates higher charge structures to farmers.
7. With the subsequent sale of Viterra to Glencore it is probably difficult or impossible to determine the assessed value of the SA grain system component in the overall price paid for the international Viterra business. There is scope for Glencore to allocate values that suit charge justification regimes in different markets. The price paid to Viterra for the SA grain business should not be predicated on much higher charges to growers for services in this monopoly situation. The CBHWA handling charges would be a suitable benchmark to assess what handling charges in SA should be.
8. The growth in grain production in SA has been very significant since the sale of the SA grain handling system to Viterra and even further since the sale by Viterra to Glencore. As there is a very high fixed cost component in the overall SA grain handling cost structure the growth in grain production is providing a much lower unit cost for the system which should be reflected in lower charges not major increases in unit charges.
9. There needs to be adequate government imposed price and access regulations to stop abuse of the current monopoly situation. If this cannot be satisfactorily implemented in such an integrated system then recourse should be made to asset splitting.
10. The much higher Viterra handling charges reduces the quantity of grain that should be

exported through SA ports. There is a significant tonnage of grain in the Mallee areas east of Pinnaroo that are distance and therefore freight advantaged to Port Adelaide. This is penalising Flinders Ports and SA's economy.

Grain Freight

1. It is very disappointing to note the major shift from rail to road transport of grain in the Port Adelaide catchment areas. Only one or two silos in this part of the state are not rail served, Appamurra and Strathlbyn. From my observation there has been a massive increase in grain truck traffic down the SE Freeway en route to Port Adelaide, probably outer Harbour. This carries with it major additional road damage on both Commonwealth and State roads, additional city congestion and much higher levels of air pollution. The one report that I have sighted, provided to the Mallee councils left a lot to be desired.
2. As one train load equates to 60 double truck loads or 80 single truck loads the impact of cessation of rail transport of grain is a major negative impact on road damage , safety and congestion.
3. The competitive situation between road and rail is very much distorted by the rebate of the 40 cpl federal fuel tax.
4. It appears, subject to any contradictory evidence, that Viterra, by its transport mode preferences, is imposing significant cost on the wider community. Given the scale of the grain transport task and its level of production increases this is a totally unacceptable situation.

When Australian National came up for sale I formed a user group with Boral, Penrice, AWB, ABB and Ausbulk which together represented 80 of AN's freight business. We ensured all our contracts were non assignable. As a result we were able to prevent the Federal Government from selling this portion of AN to Rail America [having done our research on the three US bidders]. This resulted in Gennesee Wyoming being the successful bidder and stopped the Port Augusta workshops from being closed and the work transferred to Dynon. GW are still very active in Australia whereas Rail America caused the Victorian Government considerable financial losses after buying Vline and failing.
I do have a concern that SA, after selling the SA Railways to the Commonwealth in 1976 , is disadvantaged in terms of local rail expertise and culture.

I hope that you will take into consideration the above in determining a better outcome for SA growers. They deserve much better treatment given their very important role in our economy.

I would appreciate the opportunity to discuss the above and other relevant matters with ESCOSA.

Yours Faithfully

John Hill