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Mr. Brett Rowse, Chair, Essential Services Commission of South Australia

Dear Mr. Rowse

Inquiry into the South Australian bulk grain export supply chain costs

We welcome your inquiry. Minimizing grain handling costs maximizes the geographic markets available to South Australia against your competitors such as the Black Sea granaries.

There may be some helpful insights from nearly twenty years ago from your neighbor and competitors in Victoria. I was then Manager Ports and Grain Handling for the Victorian regulator, initially called the Office of the Regulator-General (Mr. Robin Davey) then named the Essential Services Commission (chaired by Dr. John Tamblyn.

We found face to face public consultation really effective in engaging growers and their industry. Public meetings were held in

- Horsham (Mr. Robin Davey)
- Wimmera Field Days via Longerenong, Melbourne (Dr. Tamblyn)

Several vertically linked monopolies and duopolies were unwinding at the time.

- Single export desk AWB
- One rail company was being privatized.
- One recently privatized grain handling company
- 2 grain ports – Portland and Geelong - both recently privatized.
- Grain was just being thought of at the Port of Melbourne which was then in public hands but lightly regulated.

Regulation could only be light-handed if competitive forces emerged and if customers were empowered by quality information and economics tutorials.

Initially there was little transparency and little public understanding.

There had been good understanding of the historic need for grain segregation and quality assurance to earn Australian wheat higher margins internationally.

On the margin, there was helpful competition from South Australia – via her freight paths to her export sea ports.

That history, and current liaison with grain exporters, suggests the following issues.

1. Segregations. What is the marginal transport cost of the extra segregation?

Compared to 20 years ago, has South Australia's quality premium decreased as different varieties are blended precisely to meet minimum standards?

If the quality premium is now only a few dollars per tonne, is this more than offset by the extra handling costs?

Is there an economic case to reduce the number of varieties handled?

2. Capacity utilization.

Has this reduced over 20 years?

What steps might be taken to improve capacity utilization?

3. Inter-port competition

Do the Ports of Portland, Geelong, and any WA ports provide useful competition on the margin for SA grain handling ports?

Port Lincoln is a key SA port. Is there any way competitive pressure might be placed on Port Lincoln, however modest? Perhaps benchmarking against comparable deep ports?

4. On-farm storage

Has on-farm storage emerged over the last 20 years?

Is this a symptom of unhappiness with the mainstream providers, or is it a useful emerging competitive pressure?

Please do not hesitate to ring me on _____ to clarify any point.

Kind wishes

Philip Norman FAICD