



**Submission by Viterra
to the Essential Services Commission of South Australia's
inquiry into the South Australian bulk grain export supply
chain costs**

May 2017

Foreword

1. South Australia's grain industry is strongly positioned in global markets, based on the sustainable, traceable, clean and green image of the industry, from farm to port. Viterra's system is a key part of the industry and is held in high regard by customers worldwide.
2. The grain industry is a significant contributor to the South Australian economy. The 2016/17 harvest is worth an estimated \$2.2 billion at the farm gate, with about 80% of the harvest exported.
3. Flinders University's Australian Industrial Transformation Institute has valued Viterra's contribution to the South Australian economy between 2010 and 2016 at just over \$3 billion (in Gross State Product).
4. Viterra is proud of the significant contribution we make to the South Australian grain industry, the results we are achieving for the industry and the consistent high standards of quality, safety, reliability and sustainability which demonstrate the supply chain is working well.
5. The 2016/17 harvest proved the strength of Viterra's South Australian bulk grain supply chain. We managed record receivals, set records at many of our sites and fully utilised our up-country, logistics and terminal assets, including new storage added prior to harvest in response to feedback from growers.
6. Working closely with growers and exporters, our system received 9.2 million tonnes of grain, delivered by more than 315,000 truck-loads at 83 sites, from more than 5,000 growers, provided 63 segregations, and loaded ships for 11 exporters sending grain to 21 countries.
7. In doing so, we employed 1930 casual staff in addition to our permanent workforce of 700 people, achieved record shipping at a number of ports, minimised vessel wait time and improved our safety performance. This season, we will transport more than five million tonnes through Viterra's road and rail supply chains to our six export terminals. The Minister for Agriculture, Food and Fisheries formally recognised Viterra in his Ministerial statement to Parliament on 30 March 2017, as having done a *"fantastic job working with the industry to prepare for this bumper crop, boosting its storage, handling and shipping capacity."*

8. Viterra's vision is:

Be the market leader in connecting agricultural commodities safely and efficiently between growers and domestic and international customers.

9. Our vision will be achieved by focusing on six key areas.

1. Improve our high standards of health, safety and environmental performance.

In every aspect of our business, the health and safety of our people, contractors, visitors, customers and communities is our number one priority.

2. Achieve closer, mutually beneficial relationships with growers.

Growers are key customers. The success of our business is reliant on their success. We work closely with our grower customers to understand their changing needs and match our services to meet those needs.

3. Inspire and support our people to be ambassadors.

Our employees are critical to our success. We have world-class assets, supported by a high-performing workforce to operate an efficient supply chain and provide a high level of service to our customers.

4. Achieve valuable relationships with customers and external stakeholders.

Communicating openly and building relationships with domestic, export and end-use customers, government and industry is crucial. We need to ensure our business and services are meeting their expectations and needs.

5. Operate the most reliable, effective and professional supply chains in Australasia.

We have an ongoing focus on improving supply chain efficiencies, including logistics, storage capacity, quality control, IT systems and shipping capacity. We strive to provide services that match the needs of our grower customers, export customers and end-use customers.

6. Pursue opportunities to support sustainable growth.

We are adapting to a changing market and challenging environment and we take a long term view to make our business more resilient. Our business will continue to innovate to adapt to the changing needs of customers and capture growth opportunities that exist with growing populations and food demand.



10. In recent years we have made commercially rigorous decisions to further increase the efficiency of our service delivery for customers. We continue to place a strong focus on prudently managing our costs and maximising opportunities for efficiency. We operate a large, distributed network of infrastructure and we are committed to efficiently sustaining it for the benefit of our customers.
11. Our prices are reflective of the scale of our business, our investment in infrastructure and the quality of the services we provide to our customers. The cost to replace Viterra's infrastructure would be several billion dollars.
12. We welcome the Essential Services Commission of South Australia (the Commission) inquiry and the opportunity to generate additional value for the industry and the state. We look forward to working with the Commission throughout the inquiry.



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Introduction

13. Viterra's submission to the Commission's inquiry into the South Australian bulk grain export supply chain highlights our role in providing a high level of service to growers and exporters and capturing value for the industry.
14. Our submission is focused on the bulk grain export supply chain; however, there are also strong markets for South Australian grain through domestic supply chains and container export supply chains. These alternative markets for South Australian growers provide added competition and can account for more than two million tonnes of demand each year.
15. There are two parts to our submission:
 - Part 1 provides an overview of the Viterra business and our South Australian bulk grain export supply chain
 - Part 2 provides our perspective on some of the issues relevant to the inquiry.



Part 1. Overview of the Viterra business

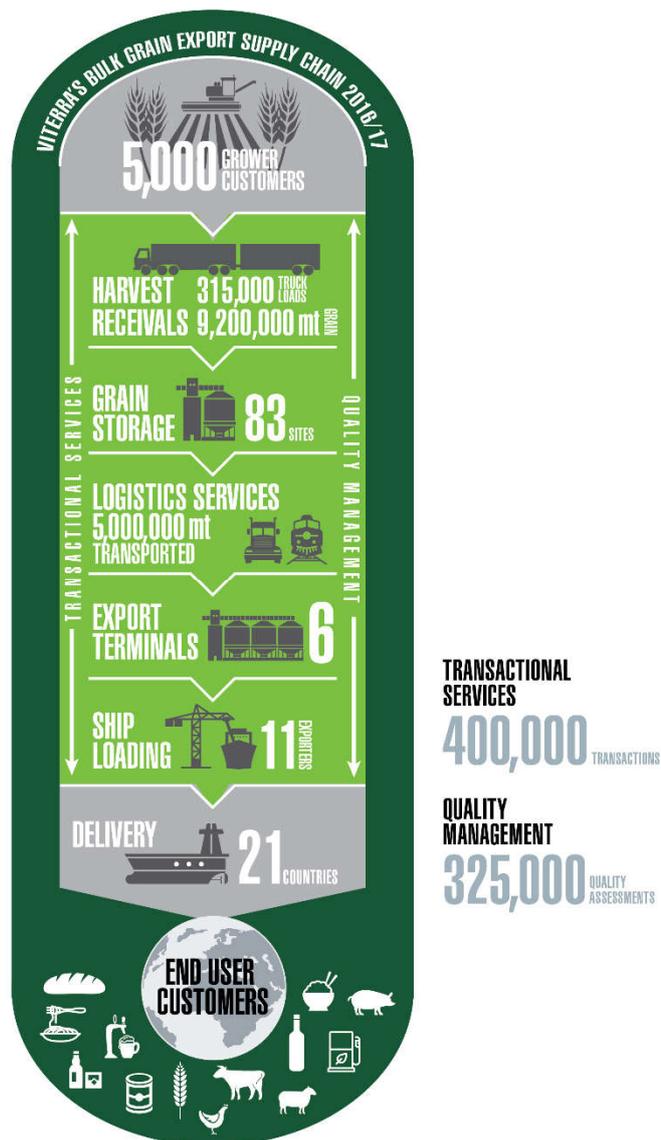
1.1 BACKGROUND

16. Viterra has operations across Australia, providing services to growers as well as domestic users, exporters and international end-users.
17. Viterra's operations include a grain storage and handling network across South Australia and western Victoria.
18. The commodities exported through our bulk grain supply chain in South Australia include wheat, barley, canola and pulses.
19. Viterra also has packing and processing facilities providing a large range of containerised export options to the grain industry. Viterra's container facilities are located across southern and eastern Australia; at Port Adelaide and Two Wells in South Australia, Doon and Laverton in Victoria and Narrabri in New South Wales.
20. Viterra has nearly 700 permanent employees, a majority of which live and work in regional South Australia. In addition, each year we employ up to 2000 people to work over the harvest period. This year, we are adding 100 permanent positions to our workforce to improve our service levels to customers.
21. The storage and handling network was originally South Australian Cooperative Bulk Handling (SACBH). Around 1999 there was a recognition by the Board of grower directors of SACBH that although SACBH had a substantial asset base, its grower members had no entitlements to those assets.
22. A grower approved change to the corporate structure in 2000 allowed growers to access the equity they held in the business, by providing saleable shares. It also enabled the merger between ABB, United Grower Holdings and AusBulk in 2004 to take place and the later sale of the company to Viterra in 2009 and then to Glencore in 2012.
23. Viterra is now part of Glencore Agriculture. Glencore Agriculture is a global leader in originating, handling, processing, shipping and marketing agricultural commodities, including grain, oilseeds, pulses, sugar, rice, cotton, vegetable oils, protein meals and biodiesel. Its operations span more than 35 countries worldwide, and include marketing offices in 34 countries.
24. Viterra operates in conjunction with Glencore Agriculture's Australian and New Zealand marketing business.

25. In recent years, the grain supply chain in South Australia has undergone tremendous change, especially following the deregulation of the export wheat market in 2008, which has impacted the competitive dynamics across the industry nationally. The South Australian industry has demonstrated its ability to capitalise on opportunities, operate commercially and respond to customer needs.

1.2 OUR SERVICES

26. The South Australian bulk export grain supply chain starts at the farm gate and includes every step in the process of delivering the grain to the overseas end-user.
27. Viterra provides the storage and handling network that growers deliver their grain into, and we manage the grain on behalf of our customers until it is loaded into a vessel on behalf of an exporter.



28. Viterrra provides its grower and export customers with a range of services including storage and warehousing, receival and elevation, quality assessment, logistics and accumulation, quality control and food safety, electronic transactional services and ship loading. Each service is adaptable to enable the individual requirements of customers to be met.

1.2.1 Storage and warehousing

29. Viterrra's South Australian system include storage sites that span from the far west of Eyre Peninsula across the grain growing regions of Eyre Peninsula, Yorke Peninsula, Adelaide Plains, mid-north, Riverland, Mallee, through to the south-east of South Australia, and includes two Victorian sites. We received grain into 83 sites during the 2016/17 harvest.
30. The upcountry receival sites and the strategically located port terminals (which also serve as delivery sites for local growers) have a total storage capacity of more than 10 million tonnes. The storage facilities have the capability to handle and store peak volumes. The 10 year average receivals in Viterrra's South Australian sites is 6.3 million tonnes with peak receivals of 9.2 million tonnes.
31. Viterrra's sites that operated in 2016/17 range in storage capacity from 6000 tonnes to 750,000 tonnes with various storage types including concrete cells, sheds and bunkers. The concrete cells were constructed as early as the 1950s, with sheds and bunkers added more recently including the construction of over one million tonnes of bunker storage in the last two years.
32. We receive the main commodities grown in South Australia including wheat, barley, canola, lentils, faba beans, field peas and lupins.
33. We offer multiple segregations for each commodity. In the 2016/17 harvest we provided 63 different segregations. These multiple segregations allow growers to capture value for their grain depending on the variety, grade and quality specifications of their individual loads to better match the export needs of their buyers.
34. Growers decide where to deliver their grain depending on a number of factors, including segregations, market opportunities, weather, and their logistics capacity. Growers' decisions may change on any given day.
35. On delivery, growers can choose to sell their grain, commit it against an existing contract or warehouse it. Warehousing allows growers to separate the physical delivery of the grain from the marketing of the grain. Typically more than 90% of grain is warehoused, giving growers the flexibility to choose when and to whom they sell their grain.

1.2.2 Receiving and elevation

36. Receiving grain and unloading trucks quickly is critical for growers' harvest operations. There are multiple points of elevation at each site, with unloading speeds at each point ranging from 80 to 600 tonnes per hour.
37. During the 2016/17 harvest, growers delivered more than 315,000 individual loads of grain to our sites. Each load is classified to determine the quality and grade; the load is then segregated accordingly.
38. Viterra operates more than 100 drive-over hopper and stacker units to receive grain into bunkers. These assets are moved between sites to maximise their use during the peak period in each region.
39. Efficiency gains and improvements in elevation capacity speed up receipt and also increase the efficiency of out-turning grain. This is critical to matching the increasing capacity of growers to deliver grain.

1.2.3 Logistics

40. Reliable logistics linking upcountry sites to port with efficient provision of road and rail infrastructure is crucial to the efficiency of the storage and handling network.
41. We utilise the rail network using one train on the Eyre Peninsula, moving grain from 15 sites into Port Lincoln, and two trains operating on the Australian Rail Track Corporation (ARTC) lines from north and east of Adelaide, moving grain from 8 sites into Inner Harbour and Outer Harbor.
42. We typically move 600,000-800,000 tonnes per train per annum on the ARTC lines. On the Eyre Peninsula, we typically move 750,000-850,000 per annum on the one train.
43. We contract a number of regionally based road transport providers to move grain from upcountry to port. To maximise efficiency, we aim to utilise the highest mass vehicles available depending on the limitations of each route, including last mile access.
44. Viterra offers its export customers a bundled service package, **Export Select**, to provide an efficient vessel accumulation option. On behalf of any owner of grain, Viterra consolidates, accumulates and manages the logistics task from its upcountry sites to port. Export Select rates are published every month, giving customers access to known freight rates to move grain from country to terminal.

1.2.4 Shipping

45. Viterra's six grain port terminals are distributed along the South Australian coast at Inner Harbour, Outer Harbor, Port Giles, Wallaroo, Port Lincoln and Thevenard.
46. Across these ports we have the capability to load various size vessels from handymax to capesize depending on the needs of the exporters, although some of the smaller ports are constrained to smaller vessel sizes. At each port, we have the capacity to accumulate different commodities and quality specifications simultaneously for multiple vessels loading at the port.
47. The loading rates of the ports range from 800 to 3000 tonnes per hour, with some ports able to offer 24 hour loading operations to ensure vessels are loaded as quickly as possible.
48. The 10 year average annual export task from South Australia is 5.2 million tonnes, but varies significantly, with record shipping of just under 8 million tonnes in 2010/11.

1.2.5 Quality and food safety

49. In managing the quality control, food safety standards and grain security through the supply chain Viterra ensures the grain meets the highest quality and food safety requirements of international customers.
50. Viterra's quality management and food safety practices start at the receival point where all grain is quality tested and segregated as per relevant standards. Testing continues while grain is held in storage, transported to port and when loaded into vessels.
51. Growers transfer all quality and stock risk to Viterra when they deliver their grain.
52. Viterra takes responsibility for ensuring grain quality is maintained while in our system. We undertake best practice grain hygiene processes to minimise or remove moisture, insect and pest impacts. The highest priority is to ensure grain is free from pests of quarantine concern. Grain is fumigated to meet exporters shipping programs and the importing country requirements.
53. All Viterra facilities meet the highest international standards of food safety management through its ISO 22000 accreditation with sites subject to biannual internal and annual external audits.
54. A dedicated, state-of-the-art laboratory oversees all classification testing as well as ongoing testing for chemical residue levels and contaminants. Viterra subscribes to the Government's National Residue Survey for testing of chemical residues in

cargoes and participates in a collaborative benchmarking program with a majority of the major grain testing laboratories in Australia.

55. All Australian grain export port terminals are required to be registered and certified by the Department of Agriculture and Water Resources (DAWR). Port terminals are subject to ongoing inspection and audit to maintain certification. All Viterra port terminals are certified.
56. At the point of export, representative samples of grain are taken continuously on loading. Authorised Officers, working for DAWR, ensure the grain meets the relevant importing country's phytosanitary requirements; Viterra conducts further analysis to ensure each parcel of grain meets the customer's contract quality specifications; and an independent, internationally accredited surveyor may be appointed by the customer.

1.2.6 Transactions

57. Viterra's IT systems and processes maintain secure current and historical stock inventory, management and transaction records and allow growers and buyers to transact in real time.
58. Ezigrain is an online platform for providing harvest information including receival standards, site opening hours, site segregations and daily grain prices. Viterra also offers the Ezigrain mobile application for smartphones allowing growers fast and easy access to much of this functionality.
59. Grain buyers upload prices online via Ezigrain. Cash prices in the Viterra system are live and can be amended or withdrawn by the buyer at their discretion. Prices are displayed instantaneously on Ezigrain at a site level and growers can accept these prices by selecting the buyer's cash purchase option when delivering their grain.
60. Viterra provides buyers and sellers with detailed records of their transactions.
61. Ezigrain also offers a secure login portal, similar to online banking. This allows growers to review their grain deliveries, warehoused grain, quality data, and previous transactions. Grain held by growers in warehouse can be transferred to multiple buyers against existing contracts or into pools.
62. Buyers also have secure login to access reports on their grain ownership. Buyers see tonnes transferred to them from growers, have the ability to securely transfer to other clients and review their updated grain ownership.
63. Reports on quality statistics are publically available via Ezigrain and include barley, wheat and canola quality results by site and grade.



1.2.7 Communications

64. Viterra maintains ongoing communication with growers and carriers regarding storage and handling operations via SMS, smart phone apps, online and via media. During the 2016/17 harvest, Viterra provided updated information to growers and carriers by sending more than 750,000 SMS messages.
65. Viterra operates an in-house Service Centre, staffed with trained personnel to answer all customer business enquiries, including site operation and grain management enquiries. During harvest the Service Centre operates seven days a week, and takes up to 300 calls per day.
66. In advance of harvest each year, a Harvest Information Book is distributed by post and the information made available online to communicate important information relating to storage and handling operations.
67. In addition to these formal communications channels, Viterra employees across the business are available to handle ad-hoc enquiries and provide assistance to customers.

1.3 OUR CUSTOMERS

68. Viterra works with customers at all points along the supply chain. Our customers include growers, buyers, exporters and end-users. We maintain close relationships with our diverse customer base to ensure our services are matched to meeting customer needs.
69. More than 5000 grower customers deliver grain into Viterra's South Australian storage and handling network. These grower customers are uniquely identified by their National Grower Register (NGR) number and are diverse in their geography, scale, age, business type, the commodities they produce and the services they require. We make our services available to all grain growers.
70. The drawing arc for grain deliveries stretches from west of Thevenard, across to south western New South Wales and western Victoria. The eastern boundary of this drawing arc is dependent on the supply and demand characteristics of each season.
71. This year, we have 40 different buyers purchasing grain directly from growers through the Viterra system. These buyers include many major global and Australian food and feedgrain companies.
72. Eleven exporters are shipping grain from South Australia this season to 21 different countries in Asia, the Middle East, Europe and Africa.



73. South Australian grain is supplied to hundreds of end-users in the importing countries. They are a critical customer of the supply chain. Products have to meet their exact specifications for quality, quantity and timing. Vitterra's sophisticated supply chain is paramount to providing ongoing access to these customers.

Part 2. Perspective on issues relevant to the inquiry

2.1 OVERVIEW

74. The South Australian grain industry has a premium position in global grain markets. The industry's strong track record of quality, food safety and traceability is a leading differentiator from other growing regions and helps to support higher returns for growers. Sustainably maintaining this track record will continue to strongly position South Australia in the global industry. **An efficient and flexible supply chain tailored to the needs of the industry is critical to that positioning.**
75. Viterro works closely with growers and exporters to maintain and improve industry worth and to ensure we continue to **focus on** consistently delivering **services that align with the expectations of our customers in terms of capacity, flexibility and service quality.** We are proud of the quality of our services and the value we deliver to growers and exporters.
76. We **operate in a competitive market** and acknowledge that farmers and exporters have a choice of alternative supply chains operating from farm gate to port, providing different levels of service. We recognise that to compete we need to operate efficiently and maintain **focus on** our customers to maximise value for the industry. This includes **optimising trade-offs between service quality and cost and maximising throughput** for the benefit of all supply chain users.
77. The **South Australian grain industry is unique** especially given the geographic positioning of grain growing regions close to the coastline and the high level of regulation. **This increases the complexity of managing an efficient supply chain.**
78. We are **committed to the South Australian grain industry** and invest to **underwrite risk for the industry** and underpin the capacity of the supply chain now and in the future.
79. Each of these issues is considered in further detail below.

2.2 OUR SERVICES ARE TAILORED TO THE NEEDS OF OUR CUSTOMERS

80. We operate efficiently and invest to continually improve our services enabling our customers to access all international markets and achieve maximum value for their grain.
81. Our planning processes and our operations are flexible to respond to the dynamic nature of the South Australian grain industry and maintain our high level of services at all times.

2.2.1 Efficiency of operations

82. Based on grower feedback, we focus investment on receival and elevation capacity and our ability to unload trucks faster. This includes purchasing new equipment and machinery, upgrading existing equipment, capital upgrades, increasing storage capacity at key sites, continually improving our classification processes and increasing our staffing levels to offer longer operating hours.
83. Implementation of new grain handling innovations and technologies, such as drive over hoppers for bunker loading and fast rail outloaders for loading trains have increased efficiency and elevation capacity at sites while reducing the need to rely solely on the construction of new storage capacity. Viterria has also been quick to adopt leading electronic sampling and quality control devices to ensure that growers and exporters receive the benefits of the best technology available.
84. In recent years we have been upgrading the capacity, safety and reliability of drive-over-hopper and stacker sets. In 2016, we introduced a new innovation of specifically designed Chevron belts. This has the potential to increase the unloading speed from an average 250 tonnes per hour to 400 tonnes per hour per unit. Following extensive research on a number of machines we plan to upgrade all machines by 2019. This technology is also being employed in ship loading to increase loading rates and mitigate delays arising from variations in vessel configurations and tides.
85. The segregation plan, outlining which commodities and grades will be received at each site across the network, is structured to maximise the elevation capacity for growers, minimise overall turnaround times and increase receivals over time.
86. In combination, the productivity improvements made by growers and Viterria result in growers delivering more loads per day with reduced turnaround times. This has been evidenced through 22 Viterria sites achieving record daily receivals during 2016/17 harvest.

87. The movement of grain at harvest from upcountry sites to port terminals limits the need for the construction of extra storage. Viterra works closely with exporters to secure shipping during harvest or to relocate shipping to those terminals where there is pressure on storage capacity. This allows growers to deliver their production to their preferred sites while fully utilising road, rail, terminal and shipping assets.
88. Export Select is a highly valued service for exporters. This service is optional; however, it is the preferred method for a majority of export customers. Its reliability and effectiveness gives them added confidence to execute shipments from South Australia.
89. Export Select delivers efficiency across the industry with road and rail operators gaining access to larger volumes than those provided by each individual exporter. These benefits are reflected in their pricing and service offerings and Export Select rates.
90. Viterra's Export Select rates are adopted by Grain Trade Australia as the location differentials for each harvest. Location differentials are deducted by buyers from port prices to establish a grain price at each site.
91. Since the negotiation of our current long term rail agreement in 2012, we have fundamentally changed the way we work with our rail partner and execute the rail task achieving significant productivity gains.
92. We have continued to increase the efficiency of executing our shipping program reducing the time taken to load vessels from Viterra's ports. This benefits exporters by reducing their costs associated with hiring vessels.

2.2.2 Flexibility of services

93. In consultation with growers, Viterra provides segregations for multiple varieties and grades aimed at maximising grower and exporter value. We continually review the segregation plan as the growing season progresses and the production volumes and quality become known. We have the flexibility to introduce new segregations during harvest as the crop is received if we are seeing a particular quality trend. This allows growers and buyers to capture value for grain that would have otherwise fallen to a lower grade.
94. Receival quality specifications are determined by industry including representation of grain grower bodies, through Grain Trade Australia (GTA). While buyers and storage operators have the ability to introduce variations to these, the grade parameters determined by GTA are most commonly applied. These parameters give consideration to production factors, end user and

importing country requirements. Of specific consideration to importing countries are pests of quarantine concern.

95. The export outturn requirements are typically more stringent than the receival standards. This may be reflected through GTA export outturn standards, the requirements of individual exporters or the requirements of the importing country. Each vessel, and possibly each hatch on a vessel, can have different specification requirements. These include parameters that cannot be tested for on receival. Our grain laboratory tests for chemical residues, gluten in wheat and the germinative energy in malting barley. The sampling systems, segregation ability, quality testing capacity and highly trained staff effectively manage this in conjunction with the need to load vessels quickly.
96. Overseas export customers and domestic customers are increasingly demanding customisation of quality and the extensive network segregations allow Viterra to meet these changing market needs.
97. Our shipping protocols have been refined to provide for the efficiency of the supply chain while maintaining the flexibility to react to the dynamic nature of the task. This allows us to manage vessels in and between Viterra ports to minimise vessel visit times.

2.3 WE ARE CUSTOMER FOCUSED

98. We have strong relationships with our grower and export customers. We also support our export customers' relationships with their end-use customers to further enhance demand for South Australian grain.
99. We regularly seek customer feedback and adapt our services to respond to their needs.

2.3.1 Grower customers

100. Direct grower feedback forms the basis of continuous improvement within the business. Viterra has a strategic site committee structure that provides an important link between Viterra and growers. Viterra has 34 Strategic Site Committees (SSCs) made up of growers and carriers who deliver grain to one or more sites in a group and represent grower views during harvest and throughout the year.
101. The SSCs are involved in decision making to consider individual site operational requirements such as segregations, storage capacity, opening hours, maintenance and longer term capital needs to ensure our services are matched to local grower needs each harvest. Industry issues such as end-use customer feedback and demand and quality control are also discussed.



102. Viterra actively seeks grower feedback through our pre and post harvest grower meetings and our post-harvest survey.
103. The responses to the survey are used to gauge how well our grower customer needs were met and identify priority areas for improvement. Results of the survey show that Viterra continues to improve its service levels to growers. This year, a majority of respondents believe our overall service delivery and operations improve compared to the previous year.
104. Results of the post-harvest survey consistently indicate the following areas as being important to growers:
 - Receival and elevation equipment
 - Segregations
 - Turnaround times on site
 - Accurate and consistent classification
 - Opening hours
105. The feedback from growers is that SMS messaging and Ezigrain are the most effective forms of communications for site opening hours, grower meetings, segregations and general harvest information. Approximately 95% of growers are using Ezigrain to assist them in managing their business. Approximately 73% of growers found the SSC format was valuable for consultation between local growers and Viterra.

2.3.2 Export and end use customers

106. We meet regularly with our export customers. They give us frank feedback on our service levels and what they require. Each export customer has differing needs, requiring flexibility from Viterra.
107. Demands from export customers include:
 - the ability to accommodate changing vessel sizes and configurations
 - meet higher demand for shipping capacity early in the season
 - the flexibility to move bookings for shipping capacity between ports, time periods and each other
 - on time loading of vessel with grain that meets their exact specifications
 - a desire for certainty of shipping capacity and pricing in future years.
108. The introduction of long term agreements for future shipping was in response to our export customers' feedback.



109. Exporters have demonstrated their confidence in the services we offer. We have nine different exporters willing to commit to use the Viterra system for exports out to and including the 2020/21 season.
110. We have direct contact with many international end-use customers for South Australian grain. In the last 12 months, we have hosted 12 international customer delegations and we are receiving an increasing number of requests to visit from a large range of end-users.
111. Customers are wanting a deeper understanding of where their product is coming from and how it is managed. This includes visits to our grain receival sites, port terminals and laboratory; viewing and discussing the management of the system; and quality control, food hygiene and traceability practices and accreditations.
112. Viterra has received accreditation from a number of individual customers that allows exporters who use Viterra's system to supply product to meet their needs. This can be at a premium price to alternate markets.
113. Consumer demands are changing. The premiumisation of the markets our export customers are selling into is leading to greater requirement for traceability and knowing where products have come from. They are more willing to pay for products where they can be confident in the origin, sourcing, storage, transport, safety and quality of the product they are consuming. They are becoming more interested in whether it has been grown sustainably, ethically and in a socially responsible way. Consumers are wanting to trust the authenticity of the product.
114. This is driving behaviour of the food and feed manufacturers, and ultimately their suppliers and the sourcing systems they use.

2.4 WE OPERATE IN A COMPETITIVE ENVIRONMENT

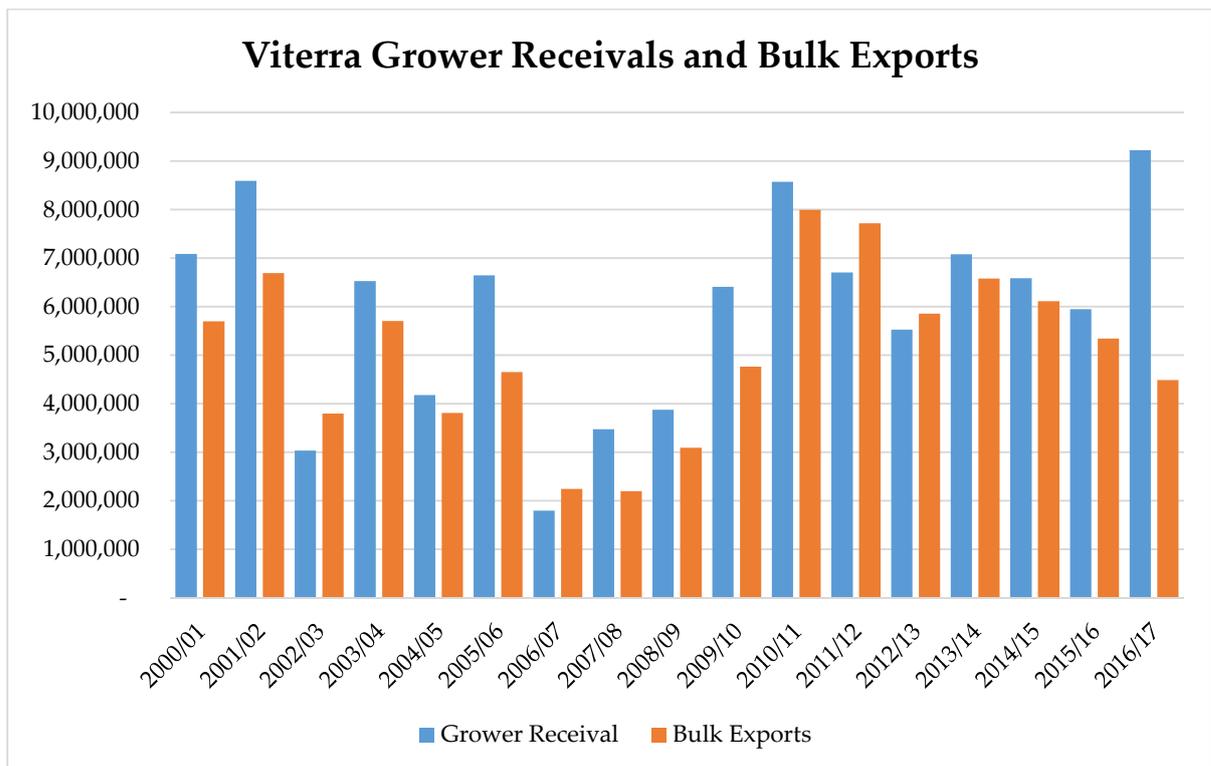
115. South Australia competes with other supply chains both within Australia and globally to supply export markets. The current high production and stocks across the world, coupled with relatively low ocean freight rates mean end-use customers have multiple options when choosing where to source their grain.
116. We are driven to be customer focused and deliver value. We will only be successful long term if we provide value to growers, exporters and end-use customers.
117. Viterra operates an open access system through its up country storage, logistics and port terminals. We provide non-discriminatory access to anyone who wants to use all or part of the services we offer. Fragmented markets and the unnecessary duplication of existing infrastructure leads to inefficiencies along the supply chain.

- 118. The establishment of alternate grain export supply chains in South Australia compete directly with Viterra’s storage and handling network. There are low barriers to entry in the grain supply chain.
- 119. We compete with interstate ports. Supply and demand and supply chain pricing variations have the ability to amend drawing arcs. Viterra is competing with alternate supply chains in Victoria.
- 120. We encourage multiple buyers the Viterra system. Viterra's supply chain and transactional services creates an environment in which global buyers seek to operate. These buyers offer growers contracts for future delivery and post live prices creating a competitive market for growers and access to competitive prices on any given day.

2.5 OUR OPERATING ENVIRONMENT IS UNIQUE

2.5.1 Variable production

- 121. Production in South Australia is growing. However, variability of production is high on a state-wide and regional basis and therefore Viterra’s receival volumes are also highly variable each year. In the 2016/17 harvest, Viterra received a record 9.2 million tonnes; however, this is contrasted with the 2006/07 harvest when Viterra received less than two million tonnes.



122. The bulk export volumes from South Australia are also highly variable in line with production and exporter demand, both on a year by year and month by month basis.
123. Annual production also varies by commodity depending on what growers choose to crop each year.
124. Viterra provides the flexibility for growers to deliver a range of commodities, grades and volumes.

2.5.2 Distributed network

125. South Australia is also unique when compared to other grain growing regions given the close proximity to the coastline. This accounts for the large number of bulk export ports, which also serve as a receival point for local growers.
126. While a large proportion of grain is delivered to major sites, the small sites in Viterra's network continue to play an important role providing valuable segregation capacity. They can receive low volume commodities and grades, despite having limitations in elevation capacity and the truck sizes they can receive.
127. The use of smaller sites and segregations are determined in conjunction with local growers to ensure they enhance the efficiencies of the larger sites. Small sites may operate on a fill-and-shut basis in order to operate economically.

2.5.3 Quality of the transport infrastructure

128. The bulk grain export supply chain is heavily reliant on the efficiency of the transport network. The ability to move grain to port in a sustainable, cost-effective, timely manner is critical and represents the greatest opportunity for improvement in the supply chain.
129. The rail infrastructure on Eyre Peninsula is ageing and grain is the only commodity moved on the lines from Kimba and Wudinna into Port Lincoln. There are restrictions on weight and speed, which are further impacted in hot weather (days that coincide with the peak demand period for grain movements) and are isolated from the standard gauge network. However, Eyre Peninsula rail provides important capacity and is effectively utilised.
130. The ARTC lines in the central and south eastern regions are able to carry greater weight, and the trains can travel at higher speeds. These lines have multiple rail customers. Grain trains are at times subject to congestion delays due to the variable timings to meet shipping requirements, rather than being able to schedule

around other track users. The trains on the ARTC lines are connected to the national standard gauge network and can operate interstate.

131. The road infrastructure is fit for the current task. However, to more efficiently manage the future task and use truck configurations that can handle greater tonnage, roads will need to support larger than b-double trucks. With different levels of government responsible for road ownership along transport routes from upcountry sites to port, consistency is necessary in permitted access limits for heavy vehicles.

2.5.4 Regulation

132. Viterra's supply chain operates in a highly regulated environment and under a disproportionately high regulatory framework compared to other States. There are significant hidden costs that arise from the excessive application of regulation that includes reduced efficiencies, high compliance costs and compromised productivity.
133. The current Port Terminal Access (Bulk Wheat) Code of Conduct (the Code) which is overseen by the Australian Competition and Consumer Commission (ACCC) was introduced by the Federal Government in 2014 to ensure open access at grain port terminals and manage how port terminal capacity is allocated to exporters.
134. Over the past two years, either through Ministerial exemption or ACCC exemption, most grain port terminals across Australia have been removed from the highest regulatory requirements of the Code. The only port terminals now operating under the highest regulation are the six ports operated by Viterra in South Australia, two ports in Queensland and one port in Victoria.
135. The Code's disproportionate focus on South Australia reduces the South Australian grain industry's ability to compete with other States impacting its ability to meet the demands of exporters, creating inefficiencies and increasing the cost of operating the supply chain.
136. We recognise the importance of certain regulation such as the Work, Health and Safety (WH&S) regime and we invest heavily in training, equipment, facilities and safe systems of work, not only for the benefit of employees, but also for the many visitors and contractors who attend our sites.
137. Viterra's highly effective WH&S practices and performance have been recognised through our licence to self-insure. Viterra was recently granted self-insurance status for the maximum period available under the South Australian Workers Compensation Legislation.

138. Self-insurance recognises Viterra’s maturity in the WH&S area and allows us to operate in a more flexible manner which in turn provides efficiencies and savings in compliance costs that would not be available in a more prescriptive environment.

2.6 WE INVEST AND UNDERWRITE RISK ON BEHALF OF INDUSTRY

139. Our supply chain has to be sustainable, reliable, safe and efficient. Through the provision of its services, Viterra accepts significant risk on behalf of the grain industry including underwriting key supply contracts with external service providers.
140. Much of Viterra’s investment is in maintaining the reliability of critical infrastructure and ensuring the safety and quality of the assets for the long term sustainability of the business and its ability to service customers.

2.6.1 Quality management and protecting market access

141. At the point of receipt, each load of grain is classified and growers are issued with a ticket stating the quality specifications of that load. At this point, growers transfer their quality risk to Viterra.
142. As evidenced by the feedback we are receiving from exporters and end-use customers, many customers and importing countries are continuing to improve their food safety and quality systems. New laws and regulations are being introduced, more testing is being undertaken and food safety, contaminants and quality limits are getting tighter.
143. Viterra’s strong commitment to quality, food safety and traceability is attractive to end-use customers and encourages them to come to South Australia to source their grain. Viterra’s strict processes are recognised by importing country authorities. This ensures access to these highly valued international markets with stringent phytosanitary requirements continues and gives growers access to pricing from buyers that represent all major global markets. Without this work, access to some international markets could be restricted, thereby reducing the number of buyers in the market for growers.
144. Viterra continues to invest in the future of South Australia’s grain industry through research and development and strategic capital. Viterra’s commitment to the Plant Biosecurity Cooperative Research Centre (PBCRC) has contributed to ensuring pests of quarantine concern are minimised. This increases confidence for importers, maintains market access ensuring Australia and South Australia remain an origin of choice for importing countries.



145. Viterra has been working collaboratively with industry and equipment manufacturer, FOSS, on the development of EyeFOSS, an image analysis instrument for the objective quality assessment of grain. Viterra is supporting the innovative development of this instrument to suit the major classification categories for wheat and barley.

2.6.2 Sustainability

146. We have a strong focus on the safety of our employees, contractors, visitors and communities and the sustainability of our business and the industry.

147. To keep improving our performance we make significant investments in training to develop the operational, productivity and safety skills and knowledge of our employees, contractors and visitors as well as in the maintenance and improvement of our facilities. Our safety record and performance continues to improve year-on-year with fewer injuries and a proactive safety culture.

148. We invest heavily in developing the leadership skills and knowledge of our employees to ensure our business has future leadership capacity. Viterra aims to promote from within and has tailored two internal training programs, the Future Leader Development Program (Certificate IV in Leadership and Management) and the Leadership Development Program (Advanced Diploma in Leadership and Management) for high performing employees to learn new skills for their current and future roles.

149. Viterra is a large contributor to communities in regional South Australia. We are a major employer, with most of our employees living and working in regional areas. Where possible, we use local contractors and suppliers for our capital and maintenance projects which provide flow-on contributions for local business and economies. As a company we support many initiatives that benefit regional communities.

2.6.3 Long term arrangements

150. Viterra enters into long term agreements to secure access to transport assets for both road and rail, providing an efficient, high-capacity and economic transport system for grower and export customers. The current rail agreement underwrites rail capacity until 2018 on the Eyre Peninsula and until 2025 on the ARTC lines.

151. Commitment to these services is made well in advance of known production; and Viterra assumes this risk on behalf of industry.

152. The long term agreements with road and rail transport providers allow them to also invest with confidence in their respective infrastructure.



153. Exporters have demonstrated a strong demand for shipping capacity from Viterra's port terminals through the adoption of long term agreements (LTAs). Viterra has nine different exporters willing to commit to use the Viterra system for exports every year, up to and including the 2020/21 season. These LTAs secure exporters to South Australia, provide certainty in planning long term export programs, create an environment to invest, and establish long term relationships with overseas end-use customers. Growers can be confident of a competitive market for their grain production into the future.

2.6.4 Peak demand capacity

154. Viterra provides peak demand capacity to meet the needs of both growers and exporters. Demand is not spread evenly from year to year or across the year. Our assets and transactional services have the capacity to meet peak demand not the average.
155. In preparation for each harvest, Viterra constantly reviews production forecasts and makes decisions based on the likely requirement for services. The nature of agriculture results in significantly varied production across regions. Viterra has the capacity to respond to these production changes to meet local grower demand. In the last two years, Viterra has built more than one million tonnes of storage for this purpose.
156. Similarly, our port terminals have the capacity to manage peak shipping demand, generally early in the season. Grain exports from South Australia are weighted toward the first six months of the season, when demand from end-users is at its highest.